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U.S. Department of Housing and Urban Development
Office of Community Planning and Development

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Pockets of Poverty

FINAL

An Examination of Needs and Options

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THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

May 29, 1979

Dear Mr. President:

Last year the Congressional Conference Committee on the Housing and Community Development Act Amendments asked the Department of Housing and Urban Development to produce a study of pockets of poverty options for the Urban Development Action Grant program (UDAG). I am pleased to present to you our response to that request, a report entitled Pockets of Poverty: An Examination of Needs and Options.

I think it provides a careful analysis of the relative fiscal burdens faced by currently eligible and ineligible UDAG communities. Further, the report examines the effectiveness of present UDAG eligibility criteria, the distribution of Federal aid to UDAG eligible and non-eligible areas, and the extent of local commitments to pockets of poverty. Consistent with the request of the Congress, the report reviews various options which could be used to assist pockets of poverty. It suggests an option for Congressional consideration which is fair and equitable and which reflects the commitments of your urban policy to America's urban communities.

This study was prepared under the direction of Assistant Secretary Robert C. Embry, Jr. and Deputy Assistant Secretary Marshall Kaplan and involved senior staff from key HUD offices. Representatives of numerous public interest groups, including the U.S. Conference of Mayors and the National League of Cities, as well as local public officials and scholars from all parts of the Nation provided helpful advice throughout the course of the study.

Respectfully,

Patricia Roberts Harris

The President
The White House
Washington, D. C. 20500

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Introduction
The UDAG Program–Pockets of Poverty

Background

By the mid-1970's a significant number of American cities and urban counties in all regions of the country faced a continuing loss of population and jobs, unemployment rates at post-1940 highs, declining investment in residential and commercial property, and fiscal strain leading to curtailed services and undermaintenance of capital. Even as the 1974-75 recession eased, many of these communities suffered an exceptionally slow recovery. In response to this situation, the Carter Administration proposed that the Department of Housing and Urban Development work with Congress to expand the revitalization capabilities of the Community Development Program. The Urban Development Act Grant program (UDAG) was one of the key economic tools to appear in the resulting 1977 Housing and Community Development Act.

UDAG reflected three basic themes of the President's urban policy. First, it acknowledged the fact that Federal aid alone cannot solve deep seated urban economic development problems. Second, it symbolized the commitment of the Federal government to stimulate partnerships with the private sector and to leverage private investment with scarce federal funds. Third, it illustrated the Administration's general attempt to target rather than spread federal resources so as to produce the greatest impact in communities with the greatest need.

UDAG funds were to be used primarily to revitalize a community's economic base or to reclaim its deteriorating neighborhoods. The program was relatively small ($400 million in the first year). By statute, it was aimed at "severely distressed cities and urban counties" which required "increased public and private assistance in addition to... other forms of Federal assistance."

The UDAG legislation called for the HUD Secretary to issue regulations defining "physical and economic distress" according to such factors as poor condition and age of housing stock, low average income, population growth lag, and declining tax base. Only communities which met minimum distress standards would be eligible for UDAG funds. In addition, evidence of private sector investment in the proposed UDAG project was to be provided at the time of application, although no fixed proportion of private to public funds was specified. $300 million of the first-year funding was to go to large cities (central cities and cities with populations over 50,000) and urban counties, and the remaining $100 million was set aside for smaller cities.

Results

In October 1977, the Secretary issued regulations defining UDAG eligibility for large cities and urban counties in terms of six standards of physical and economic distress. The eligibility threshold for these standards—which included age of housing, rate of poverty, population growth lag, growth of per capita income, unemployment rate, and employment growth lag[1]—was set at the median values of the large cities.

As a result of using these criteria, 322 out of 559 large cities[2] and 11 urban counties were eligible for UDAG funding during fiscal 1978.[3] Their regional breakdown was as follows:

Table 1: Regional Breakdown of UDAG Eligibility

Census Regions	Eligible Large Cities	Proportion of Cities Eligible[4]	Eligible Urban Counties
Northeast	98	72%	6
North Central	82	58%	1
South	92	59%	1
West	42	36%	3
Puerto Rico	8	100%	
Total	322	58%	

On a state-by-state basis, California had the largest number of eligible large cities (31) and Texas had the second largest (25). In the category of small cities, almost half of the cities on the first-year UDAG eligibility list were in the South.

A high percentage of final projects from all regions were funded during the first five rounds of the UDAG program, as indicated in the following table:

Table 2: Approval Rate for Large City UDAG Competition (First Five Rounds)

	Final Projects Received[5]	Projects Approved	Percent Approved
Northeast	79	67	85
North Central	63	47	75
South[6]	44	29	66
West	26	19	73
Puerto Rico	4	2	50

Although the Northeast has had the largest number and highest percentage of approvals, other regions have had the largest approved projects. For example, of the eight approved projects with budgets over $10 million, the West had two, the North Central region four, and the South two.

It is projected that the 241 UDAG projects funded by December 1, 1978 will produce 200,000 jobs, of which 87,000 will be new permanent jobs and 47,750 retained permanent jobs. For a subset of 137 projects approved in the earliest rounds, a total of $1.7 billion in increased property value and $68 million in property tax revenue is projected by the communities involved, as are 8,000 new and 7,000 rehabilitated housing units. In line with the expressed aim of encouraging private sector investment, the amount of private funding already leveraged by UDAG for the 241 projects is estimated at over $2.9 billion.[7]

The Tower Amendment and Pockets of Poverty

Recent debate over the UDAG program has focused on its method of targeting. Some critics, primarily from growing communities, have suggested altering or amending the eligibility criteria in order to expand or extend the definition of distress to match perceived problems in their areas.[8] However, the major issue, as manifested in the debate over the Tower Amendment, concerned making pockets of poverty eligible for UDAG assistance within otherwise non-distressed cities.

Proposed in 1978, the Tower Amendment to the UDAG legislation reads as follows:

"A city or county is severely distressed and eligible for assistance under this section if it contains one or more areas which have the levels of physical and economic distress set forth in the minimum standards . . . the term 'areas' means one or more contiguous census tracts having a population of at least ten thousand persons."[9]

Census data for 1970 show that large distressed areas exist in all fifty of the nation's largest cities, including those ineligible for UDAG. For example, the Census has delineated "low income neighborhoods" and "low income areas" where at least twenty percent of the residents in each census tract are below the poverty level.[10] Each of these neighborhoods or areas has a population of at least 20,000 residents, frequently many more. Houston, for instance, contains a distressed area that in 1970 had an area of over sixty square miles and a population of over 350,000.[11]

The following table suggests the ease with which large areas of communities currently eligible for UDAG could, under the provisions of the Tower Amendment, meet at least three UDAG distress criteria (the minimum required for eligibility for entire jurisdictions).

The Senate debate on the Tower Amendment centered on the equity of excluding entire communities from UDAG on the basis of jurisdiction-wide measures of distress. Defenders of the Amendment observed that since large areas in some ineligible communities had physical and economic problems as severe as those of almost any distressed area in the country, it was unfair to penalize disadvantaged persons in such areas simply because their jurisdiction was relatively prosperous. To the proponents of the Tower Amendment, it also seemed unfair to penalize communities whose overall statistical health was brought about by annexations that were nevertheless costly to service and masked concentrations of distress.

The opponents of the Tower Amendment acknowledged the existence of severely distressed areas in some of the ineligible communities. However, they observed that the $400 million UDAG program was a relatively modest, limited program in contrast to the $3.6 billion Block Grant program or the $6 billion Revenue Sharing program, and that its effectiveness depended on strict jurisdictional targeting. In addition, they judged that communities with overall distress had much more difficulty than non-distressed communities in gathering private

Table 3: Low Income Areas of Large UDAG-Ineligible Communities

City	Percent of city in Low Income Area, 1970	Thousands of Persons in Low Income Area, 1970	Percent[11] Pre-1939 Housing, 1970	Percent[11] Below Poverty, 1970	Unemployment[13] Rate, 1977 Est.[14]
Dallas	25.7	215	28.6[12]	32.5	8.5
Houston	28.9	353	31.4[12]	29.8	8.3
Indianapolis	12.4	91	78.0	29.5	20.1
Memphis	43.8	270	34.0[12]	38.4	14.3
Oklahoma City	26.5	96	49.7	32.0	10.5
Omaha	14.8	51	73.8	30.2	12.3
Phoenix	16.8	97	37.1	32.1	16.3
San Diego	12.5	80	37.8	27.2	17.3
UDAG Threshold			34.15	11.24 16.86 (Bonus)	6.98

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and public resources to handle their disproportionate blight. Conceptually, supporters of UDAG argued that, given the UDAG emphasis on fostering economic development and reducing fiscal distress, jurisdictions rather than neighborhoods should be the focus of the program.

Because the UDAG program encouraged local public-private partnerships, it met important economic development needs of distressed cities that were not met by other Federal programs. In effect, UDAG encouraged relatively large private sector developments and investments in areas prone to disinvestment. The supporters of the existing eligibility criteria feel that chances for truly distressed communities to receive a significant amount of UDAG funds would be diluted by a definition of distress that would include almost all cities and urban counties.

By July 1978, when the Senate voted on the Tower Amendment, the list of UDAG-eligible communities for FY 1978 had already been published. Excluded from the funding competition were 237 large communities, including eighteen of the fifty largest, on the basis of overall distress criteria. This drove home the effect of the eligibility regulations. Some Senators feared that targeting procedures similar to UDAG's would affect other Federal development programs. Hence, although it had turned down a weaker form of the Tower Amendment in 1977, the Senate passed the Amendment by a vote of 47 to 38 in 1978.

The House of Representatives did not take up a "pockets of poverty" amendment, and in conference the Tower Amendment was dropped from the Omnibus Housing Bill for 1978. However, the conferees mandated a study of the feasibility of admitting needy sub-areas to the UDAG competition. Their report to the Congress showed interest in, as well as reservations about, opening the UDAG eligibility process. It acknowledged that many cities and urban counties which were not presently eligible to participate in the UDAG program contained areas that were severely distressed both economically and physically. On the other hand, the report noted concern over the redirection of UDAG funds from presently eligible cities and urban counties to those not presently eligible. The conferees directed the Secretary of HUD to determine the problems of ineligible communities in meeting the needs of their distressed areas, to analyze the ability of such communities to meet these needs without additional Federal assistance, to investigate criteria by which ineligible communities could address economic and physical distress in their subareas, and, if feasible, to make recommendations which would enable UDAG to attend to the needs of pockets of poverty within otherwise non-distressed jurisdictions.[15]

Outline of the Study

This study responds to the Conference committee's study request. It analyzes the various factors affecting and defining urban economic, physical and fiscal distress. It also addresses complex questions relative to the distribution of scarce Federal urban aid.

Because of time and data constraints, the study relies primarily on secondary data. HUD analyses were complemented by papers prepared by several urban scholars, the Census Bureau, and the R. L. Polk Company. Field visits were made to representative communities (primarily UDAG ineligible communities) by HUD personnel and by faculty from the University of Texas in Dallas.[16] Initial study findings were discussed with representatives of numerous public interest groups and a wide range of local public officials.

Chapter One discusses the eligiblity criteria that govern the competition for UDAG funds. It outlines the current eligibility variables, discusses their positive and negative qualities as distress indicators, investigates various alternative criteria, and compares the results of UDAG eligibility criteria with the results of other indices of socioeconomic and fiscal distress.

Chapter Two analyzes the relative fiscal burden of distressed and non-distressed communities. It discusses revenue sources and expenditures, investigates the annexation issue as it relates to fiscal strain, and evaluates the tax effort of distressed communities as compared to non-distressed communities.

Chapter Three discusses the extent of Federal aid that flows to distressed and non-distressed communities as well as the state and regional distribution of Federal outlays. The chapter also explores the implications of indirect aid, such as procurement and tax policies, and of income transfers to individuals.

Chapter Four describes the extent to which distressed and non-distressed communities use their own resources to serve the needs of their distressed areas.

Chapter Five outlines the possibilities for directing Federal aid to pockets of poverty within jurisdictions and concludes by recommending appropriate targeting procedures for the UDAG program.

Footnotes

1. These six criteria will be discussed in detail in Chapter I.

2. These are cities with populations over 50,000 or central cities of SMSAs.

3. Because several of the distress indicators get updated annually, there is some variation each year in the eligibility list.

4. See Table 4, Chapter 1, for a fuller discussion of these proportions.

5. Many communities have submitted more than one proposed project for consideration. Projects held over from Round 5 to Round 6 are not included in these figures. Nor are projects approved for small cities under 50,000 that are not central cities of SMSAs.

6. In HUD Regions IV and VI -- the South Atlantic and Southwest -- the rate of approvals to applications was 20 out of 25 (or 80%).

7. Data taken from *Working Paper on UDAG*, HUD Office of Community Planning and Development, January 22, 1979.

8. Suggested alternative criteria will be discussed in Chapter I.

9. See pages 6-8 for a brief discussion of the amendment issues.

10. "Low income neighborhoods" consist of contiguous groups of census tracts, with a combined population of at least 20,000, where all tracts met the 1970 Census definition of low income (that is, at least twenty percent poverty). "Low income areas" are the aggregate of all census tracts with more than twenty percent poverty. In most large cities, the low income neighborhoods and the low income areas are virtually synonymous.

11. In terms of defining and possibly funding areas of distress, however, the demographic shifts of the 1970's must be taken into account. HUD analysis of aggregate Census data and an R.L. Polk analysis of 14 cities show that such shifts can be considerable within and between cities. See Chapter Five for a further discussion of areas of distress.

12. Since the aggregated low income areas had a considerable percentage of old housing, a large number of neighborhoods would have had more than 34.15 percent of their housing built before 1939, and thus would meet the UDAG threshold for age. For each of the 3 cities, the neighborhoods would have had more than 100,000 residents in 1970.

13. These rates apply only to the Low Income Area of the city.

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14. Compute as follows: *(Low-Income Rate 1970/ City Rate 1970) X City Rate 1977*. 1977 unemployment statistics for non-white residents in some of these cities support the magnitude of these numbers. The estimated non-white rates were 10.4 for Houston, 9.1 for Dallas, 12.9 for San Diego, and 17.5 for Indianapolis. Other data shows that minorities were disproportionately concentrated in the low-income areas in 1970 and continue to be concentrated there in 1979.

15. *Conference Report on Housing and Community Development Amendments of 1978*, October 13, 1978.

16. In alphabetical order, the communities studied through field trips were Atlanta (presently eligible), Dallas, Houston, Indianapolis, Jacksonville, Memphis, Newport News, Phoenix, San Antonio (presently eligible), and San Jose. Moreover, the three Texas cities—Dallas, Houston and San Antonio—were the subject of a specially commissioned report prepared by a research team headed by Dr. Martin Katzman, Chairman of the Department of Political Economy, University of Texas at Dallas.

Chapter I
Determining UDAG Eligibility

This chapter considers the following important questions:

- Can physical and economic distress be accurately and fairly determined through a specific set of criteria?
- Are the current UDAG eligibility standards a fair set of criteria?
- What are the advantages and disadvantages of the UDAG criteria?
- What are the advantages and disadvantages of other criteria which have been proposed as substitutes?
- How does the list of distressed communities derived from the UDAG eligibility criteria compare with the results produced by other influential criteria for distress?

Methodological Issues

No precise agreement exists concerning the factors or variables which constitute urban distress. Indeed, methodological uncertainties and data weaknesses, as well as the often disparate policy and analytical objectives, make the development of a universal standard for urban distress a difficult task.

Although the types of urban distress appear interrelated, they tend to fall into somewhat different interpretive categories defined by different factors. Such categories include socioeconomic distress (often measured in terms of poverty, education level, and income level); physical decay (often measured in terms of housing stock condition and capital obsolescence); economic development lag (often measured by unemployment rates, employment growth, growth and level of sales, and growth and level of manufacturing values); and fiscal stress (often measured by budgetary liquidity, debt structure, fiscal capacity, and tax effort). Frequently, a definition of distress will include some or all of these categories.[1]

The term "distress" is meaningful from a policy and program perspective only when quantifiable variables have been chosen to measure it. No one indicator or even several indicators can precisely represent need within and between jurisdictions. Given the lack of absolute certainty as to what causes or defines distress, the normative frame of reference of the analyst often affects the identification of variables. Furthermore, indicators chosen to represent the variables must accommodate imperfections in available data (datedness, measurement errors, and local reporting bias) and the overall conceptual crudeness of widely available measures (as with unemployment rates, for instance, which blur the distinction between long and short term unemployment and do not easily measure joblessness in small areas).

Another factor which influences measures of relative distress is the form in which variables are defined. For instance, variables may be defined either in terms of rates of changes over time. Selection of different types of variables may tilt the resulting definition of distress toward different kinds of jurisdictions or toward different kinds of problems. For example, use of per capita income growth, population growth, or employment growth will tend to favor older, declining communities whereas use of such variables as poverty levels or per capita income will tend to emphasize the problems or needs of growing areas.[2]

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The statistical relationship between and among variables poses a subtler issue for analysts both in defining and measuring distress. Use of variables that are highly correlated with one another may skew the resulting meaning of distress and grant, either knowingly or unknowingly, extra emphasis to select single variables or types of variables.[3] Conversely, some variables appear to work better in combination with other variables; that is, they either provide more explanation, offer better predictions, or isolate more relevant factors concerning distress if used in tandem with other variables.

Methodological difficulties and data problems should not result in undue skepticism concerning the relevance of distress indicators. Fortunately, the most recent studies generally agree on the basic factors generating or defining community distress.[4] Moreover, although their rankings of individual communities differ somewhat, they show reasonable agreement on a core group of distressed communities.[5]

The UDAG Variables

HUD's effort to develop standards and measurements which define distressed jurisdictions was governed by statutory mandates,[6] the availability of "reasonable data", and a review of the relationship of several key variables assumed to be related to distress. Criteria determining eligibility of larger communities were presented October 1, 1977 for public comment and were published in final regulations in January 1978.

To be eligible on the basis of distress, a large community must meet the specific standards of physical and economic distress for three of the following six criteria:[7]

- Age of housing stock
- Population growth lag
- Poverty rate
- Per capita income growth lag
- Unemployment rate
- Employment growth lag

If a community has a rate of poverty which is less than half the standard, the community must meet four of the criteria. Conversely, if its rate of poverty is greater than 1.5 times the standard and its per capita income is below the median, it may substitute a "unique distress" factor for one of the other criteria and need meet only two criteria (including poverty).

For all variables the standard is set at the median value for all metropolitan jurisdictions. As of January 1979, the standards for large cities and urban counties are as follows:[8]

a. Age of housing – 34.15 percent of housing was built prior to 1940;

b. Population lag decline – population growth rate between 1960 (1960 boundaries) and 1975 (current boundaries) was 15.52 percent or less;

c. Poverty – percent of persons at or below poverty level (1970 poverty data applied to current boundaries) is 11.24 percent or more;

d. Net growth of per capita income between 1969 and 1974 was $1424 or less;

e. Unemployment – average annual rate for 1977 was 6.98 percent or greater;

f. Job lag decline – the rate of growth of retail and manufacturing employment from 1967 to 1972 was 7.08 percent or less (or 14.1 percent or less if only comparable retail employment is available).

Table I-1 illustrates how the eligibility indices affect four large communities.

UDAG Criteria–An Analysis

Besides reflecting the guidelines set forth in the UDAG legislation (which referred to factors such as age and condition of housing stock, population growth, average income, abandonment, and tax decline), the use of multiple variables in determining UDAG eligibility is directed at solving some of the methodological problems discussed earlier. By using a variety of factors – some involving change (population growth, employment growth), some describing past or recent levels (poverty rate, unemployment rate), and some combining level and change (percentage of old housing, net growth of income), the eligibility system developed for UDAG is directed at finding the most distressed communities of all sizes and regions. The multiplicity of variables also helps distinguish degrees of physical and economic distress and potential fiscal strain among eligible communities. Particular variables have been selected to coincide with available, comparable, and updatable indicators from the Census Bureau and the Bureau of Labor Statistics.

The following tables illustrate some of the results of using UDAG criteria. Table I-2 shows that for each UDAG indicator (and also for absolute per capita income, an alternative distress measure proposed by some ineligible cities), the difference between the average eligible community and the average non-eligible community is considerable:

Table I-2: Average Scores on UDAG Distress Indicators, Eligible and Non-Eligible Large Cities

Indicator	Average Eligible[10]	Median Threshold	Average Non-Eligible[10]
Age of Housing	50.1%	34.2	20.9%
Population Growth Lag	8.0%	15.5	98.9%[11]
Poverty	14.8%	11.2	7.7%
Net Growth of Per Capita Income	$1336	$1424	$1633
Unemployment Rate, 1977	8.1%	7.0	6.0%
Employment Growth Lag	1.7%	7.1	23.9%
Per Capita Income, 1974	$4387	$4586	$5219

Table I-1: The UDAG Eligibility Process for Large Cities

Variable	UDAG Standard FY 78	Tulsa	Miami	St. Louis	Newark
Age of Housing	34.15%	26.0%	29.9%	73.8%	68.4%
Population Growth Lag	15.52%	26.8%	25.2%	30.0%	16.2%
Poverty Rate	11.24%*	11.9%*	18.7%*	23.4%*	25.0%*
Per Capita Income Growth	$1424	$1680	$1589	$1289	$856
Unemployment Rate	6.98%	5.0%	10.2%	7.9%	15.9%
Job Lag Decline	7.08%	37.8%	13.0%	23.2%	27.8%
Standards passed		1	2*	6*	6*
Eligible Status FY 78		Ineligible	Eligible on basis of unique factor	Eligible	Eligible

Furthermore, as Table I-3 shows, there is a considerable distinction between ineligible communities that meet two distress thresholds (including the 'high poverty' bonus) and eligible communities that meet three distress thresholds (including the high poverty bonus) and thereby just make eligibility. As a dramatic contrast, the 94 communities that meet six thresholds (or five thresholds with high poverty) are also characterized in Table I-3:

Table I-3: Distress Indices by Category of Cities

	Eligible (5+ Thresholds)	Eligible (3 Thresholds)	Non-Eligible (2 Thresholds)
Number of Communities	94[a]	83[b]	76[c]
Age of Housing	65.7%	37.4%	29.9%
Population Growth Lag	12.2%	25.9%	40.4%
Poverty	17.5%	11.7%	10.3%
Net Growth of Per Capita Income	$1182	$1469	$1570
Unemployment	9.5%	6.4%	6.3%
Employment Growth Lag	11.8%	11.0%	19.0%
Absolute Per Capita Income, 1974	$4080	$4756	$5057

Finally, Table I-4 indicates the number and proportion of large communities in each region which were eligible or ineligible for UDAG funding under current eligibility criteria:

Table I-4: Proportion of Large Cities and Urban Counties Eligible by Census Region

Census Region	Eligible	Ineligible	Proportion Eligible
Northeast	98	36	73%
North Central	82	60	58%
South	92	65	59%
West[a]	42	76	36%
Puerto Rico	8	0	100%
Total	322	559	58%[b]

Relevance of Variables

Each of the six variables in the UDAG eligibility formula has many advantages and some disadvantages relative to other distress indicators. In examining the strengths and weaknesses of each, it should be noted that all are part of a comprehensive system for defining distress. This system includes six distinct variables, the use of medians as thresholds, the requirement that a community meet at least three thresholds out of six, the awarding of a bonus point for high poverty, and the assignment of a penalty point for low poverty.

Age of Housing. Although age of housing stock was prescribed in the statutes as a standard of eligibility and selection,[17] it has occasioned more criticism than any other variable. At present, one eligibility point is awarded to communities with a higher-than-median percent of their housing stock built before 1940. The critics of this indicator, many of whom come from rapidly growing, younger communities in the South and West, argue that it is merely a way of directing UDAG funds toward other communities in the Northeast. They suggest that, since a high percentage of pre-1940 housing correlates well with little or no growth, the age variable together with the employment growth lag and population growth lag variables produces an undue weighting toward the slow-growth, older Northern communities. Further, the critics assert that age of housing, because it correlates negatively or only slightly with the rate of overcrowding, gives no useful information about real housing need.[18]

Those in favor of the indicator, however, suggest a strong statistical association between age of housing and such urban problems as lagging property values, declining tax base, outmoded economic infrastructure, and neighborhood decline.[19] These age-related problems often interact. For instance, the decentralization of manufacturing jobs and firms combined with the related decentralization of population has resulted in a deterioration of local tax bases in many older communities. The corresponding loss of stable workers and incomes has further undermined older neighborhoods and housing. Indeed, older areas have usually been unable to compete with newer suburban communities with higher amenities and lower tax rates. The occasional revival of a downtown area with unusual charm or locational advantage has not stopped the broad outflow from older buildings, plants, neighborhoods, and jurisdictions.

Annual Housing Survey[20] evidence, only recently analyzed at the jurisdictional level, links the incidence of older housing to the incidence of abandonment, an important measure of urban distress.[21] In communities with high levels of pre-1940 housing (50%-80%), 9.1% of all households perceived abandonment as a problem. But for moderately aged communities (25%-50% pre-1940 housing), the average was 4.5%. And for new communities (25% or less pre-1940 housing), abandonment was perceived as a problem by only 2.5% of all households.[22]

Aggregate data from HUD's Annual Housing Survey, when statistically controlled for region, income group, tenure, and disadvantaged status, indicate that pre-1940 housing units usually have two to three times the rate of perceived severe housing and neighborhood problems found in housing units built after 1940, and one-and-a-half to two times the rate of problems in housing built during the 1940s. Indeed, residents of overcrowded housing in pre-1940 units claim two to three times the incidence of structural and neighborhood problems encountered by residents of overcrowded housing in post-1940 units.[23]

The age-of-housing factor has also been defended as a reasonable proxy for community infrastructure maintenance needs. Local allocation of revenues for both replacement and maintenance of street, transit, water and sewage systems is one of the most expensive and also one of the most essential investments in older communities, it provides a useful indicator of fiscal burden.[24]

Poverty Level. Very few analysts would deny the connection between the rate of poverty in a community and its degree of distress. The objections to the existing indicator are largely methodological. For instance, some critics in growing communities object to the fact that the UDAG criterion measures the *percentage* of people under the poverty level rather than the *absolute number* of poor people in a city. They argue that the use of a rate makes it difficult to compare different types of jurisdictions.[25] In effect, communities which have annexed more affluent surroundings will have their poverty rates "artificially" lowered even though the same number and intensity of poor people remain in the central city.

Somewhat different objections to the poverty variable come from analysts concerned about declining older communities. These critics express concern about the fact that the last poverty counts for individual jurisdictions were based on incomes of

almost a decade ago, when incomes were relatively higher in their communities. Moreover, since the computation for the 1970 census did not adjust income for substantial differences in cost of living these analysts fear that percentages for many "high cost" communities may be understated.

While the present poverty factor used for UDAG is not free of problems, it is a reasonable indicator of a community's general socioeconomic character and its need for social services. It also facilitates development of comparative measures between jurisdictions[26] particularly those in the same state and those with similar size characteristics. Communities with relatively low poverty rates have greater flexibility to spend Federal aid on capital investment, while, unless they neglect their poor, communities with relatively large low-income populations often must use Federal money primarily to provide essential social services and subsidize operating costs.[27] Even though local revenue sources are varied, a large proportion of low-income persons lessens the capacity of communities to meet revitalization needs and to provide reasonable levels of services.[28]

The poverty factor is also a proxy for under-employment or ill-paid employment, conditions inadequately measured by the present unemployment indicator. To offset possible biases of the age, employment lag, and population lag variables, HUD has chosen to grant poverty a double weight if it is either very high or very low. In effect, communities with high poverty rates and low per capita income levels, even if they have relatively high growth rates, are still able to qualify for UDAG by demonstrating especially high poverty combined with a "unique distress" factor. Conversely, a requirement of four thresholds from communities with low poverty levels can disqualify some communities whose old housing stock or slow growth rate misrepresents their comparative distress.

Population Growth Lag. The 1960-75 population change indicator has been criticized because it fails to adjust for variations introduced by annexation. According to some analysts, it understates the distress level in communities which experienced major consolidations or annexations in the 1960's. Furthermore, it appears to favor older communities, which lost population to their suburbs in the sixties, over newer communities, which did not begin to experience urban outmigration or incipient decline until the 1970s. Thus the population indicator lends added weight to the age factor. Moreover, according to the critics, population growth does not necessarily indicate prosperity. New migrants, if they are relatively poor or unskilled, may require high levels of services.

On the positive side, numerous recent studies on distress have shown that population decline is strongly associated with a lagging economy, a weakened tax base, and abandonment.[29] More severe losses of population usually represent a loss of middle income residents and a consequent lag in property values. Since real expenditures do not usually go down as rapidly as population declines, remaining citizens are left to carry a disproportionate fiscal burden.[30] Hence population lag is strongly associated with fiscal strain. Moreover, many Southern and Western communities with only moderately aged housing stock have shown a sharp decline in population in recent years. In the South, especially, these tend to be the more distressed cities and urban counties.[31] Finally, communities that lost population during the 1960s have often had accelerated losses during the 1970s and a loss rate since 1970 far surpassing that of "incipient" laggers.

Per Capita Net Income Growth Lag. Unlike a measure of absolute income level or a percentage growth measure of income change, the UDAG per capita income variable recognizes both change and level. It records the net change in dollars of the community's per capita income over the period from 1969 to 1974 (soon to be updated to 1975).

A major methodological fault of the indicator, as with any per capita income indicator, is its inability to accommodate variations in the cost of living. Northern and Western communities frequently complain about this bias. On the other hand, representatives of some lower-income growing communities (usually in the South) argue that any growth measure with per capita income does not fully reflect relative levels of per capita income between jurisdictions or regions.[32]

The UDAG income indicator, however, has many of the virtues of the more traditional per capita income measures without some of their problems. By measuring net dollar amounts, the indicator gives some idea of the actual level of per capita income. Conversely, its ability to record change provides an indication of lagging economic growth and fiscal strain and indirectly recognizes the problems of high cost communities that are losing jobs and residents to other areas. Further, because the base year (1969) and final year (1974) adjust income data for current boundaries, annexations are treated neutrally. Indeed, in many respects, the measure tends to understate (or favor) the real income of low density, newer communities. By using this measure and double-weighting high poverty, the UDAG eligibility criteria recognize distress in areas of the country that still have below-average incomes despite above average percentage growth rates of income.

Unemployment. As with poverty, a major objection to the unemployment variable is that it is a rate rather than an absolute number. Some growing communities complain that use of a rate masks their extensive unemployment problem.[33] They argue that large numbers of unemployed are diluted by population gained through growth and or annexation.

In a somewhat different vein, the unemployment rate is often criticized by observers in declining areas for its reporting bias,[34] data inaccuracy, and conceptual crudeness. These critics point out that unemployment figures do not count discouraged job seekers and undercount part of the population (usually minorities).[35] A larger criticism is that a person counts as unemployed whether the unemployment is short-term or long-term, a result of natural turnover or a structural mismatch of skills. Failure to draw the distinctions as to the types of unemployment weakens the value of the unemployment rate as an indicator of distress.[36] Indeed, the present aggregate measure probably understates the unemployment problem in declining labor market areas relative to growth areas.[37]

Despite its shortcomings, unemployment appears to be reasonably well correlated with economic distress. High unemployment is associated with problems of crime, neighborhood deterioration, and fiscal strain. It is a proxy for other indicators such as the loss of major industry, the need for Federal income-transfer aid, and the cost of social services. In addition, unemployment rates provide the most current information on relative economic conditions in cities and urban counties, since the data is collected frequently and revised annually by the Bureau of Labor Statistics.

Employment Growth Lag. A major objection to the employment growth indicator is that it uses only retail and

manufacturing data. Many urban spokesmen from growing areas argue that a job growth measure which included service and wholesale employment would more equitably define city employment patterns. Further, they suggest that the employment growth measure duplicates the population growth indicator. Some suggest that the period of measurement (1967-1972) is irrelevant to current problems. Finally, many analysts argue that the data provided by the Census of Business are incomplete and sometimes misrepresent the employment status of a community. For instance, the Census gives no manufacturing employment data for twenty percent of the large UDAG communities—those that are relatively small and those dominated by a single company.

These objections are not generally borne out by recent HUD studies, which indicate that the addition of service and wholesale data to the employment growth figure would not substantially change relative distress rankings. Furthermore, population growth and employment growth provide rather different information, and both appear to be key factors in determining city health or distress.[38]

Furthermore, because Census of Business data estimate *people working in the city* rather than *employed city dwellers*, the UDAG variable provides an alternative measure of economic and fiscal capacity to either residential income or residential unemployment data. Finally, the present employment growth lag variable is useful because it reflects loss of high-paying manufacturing jobs, which undermines fiscal capacity, and loss of retail jobs, which often hurts less skilled residents. Both are directly relevant to the statutory purposes of the UDAG program.

Criteria Options

Certain analysts have proposed alternatives to the UDAG criteria. Several of the more popular options are briefly discussed below.

Use of *absolute per capita income* has been proposed as a substitute for net change of income. The advantage of this criterion is its ability to record which communities have below average per capita income, one measure of fiscal capacity. However, the problem of cost of living distortion by community size and by region would be even greater with this variable than with the net change indicator. Furthermore, an absolute measure would not reflect trends, which for many fiscal experts are as significant as level in indicating fiscal strain. Finally, an absolute measure of per capita income would in many cases duplicate UDAG's poverty level variable. The poverty variable is already double-weighted for many communities, and it provides a more precise need measure of income deficiency.

Another suggested alternative is use of a *percentage growth of per capita income*. Such an indicator would help measure relative fiscal growth and the ability to keep up with inflationary costs. It might also convey with more accuracy than the current net growth figure the situation in distressed large communities with high costs of living and inflated nominal income. However, a percentage growth of income variable would not accurately reflect the real income capacity of many higher income communities and would entirely ignore the level of income in low income communities.

A third suggestion is *to measure population change using 1970-75 data adjusted for boundary changes*, as opposed to the non-adjusted 1960-75 data which are currently used. Clearly, this indicator would reduce the effect annexation has in masking central city distress. However, the proposed period may be too short to record secular trends, and the measure may overemphasize the meaning of population changes resulting from recent declining birth rates.[39]

Substitution of *a retail sales growth indicator* for the current employment growth indicator has been suggested by some. On the positive side, retail sales are acknowledged to be a good measure of both a community's economic activity and its revenue capacity. However, the use of this single factor to measure economic growth would reduce the multiple effects manufacturing decline has had on cities and urban counties. Moreover, differential rates of inflation in different communities and regions might severely distort this indicator, especially if a 1972-77 measure were used.

Comparison of UDAG Criteria with Other Distress Criteria

A comparison of indices of distress does not necessarily validate or invalidate a given approach. However, the comparison of UDAG eligibility criteria with alternative indices will at least suggest the UDAG system's value in defining physical and economic distress.

Although all systems are understandably somewhat different, given their different purposes, UDAG variables are broadly similar to the Brookings measures of physical-economic need, Treasury measures of fiscal distress,[40] and the Congressional Budget Office measures of both economic and fiscal distress. The distressed or needy communities in the lists and rankings produced by each group, including UDAG, are all characterized by population loss, job loss, and relatively high unemployment. Furthermore, a large number of the same communities appear as needy or distressed on each list. Table I-5 (on the following pages) compares the standing of 58 major cities and urban counties as ranked according to UDAG, the Brookings large city CDBG index, the CBO economic distress index, and a HUD CDBG needs index that weighs the poverty indicator heavily.[41]

Table I-5: Distress Rankings on Different Indices for Cities and Urban Counties Over 250,000 Population

Number of UDAG Threshold Points[42]		Brookings CDPG index[43]	CBO Economic Index[44]	HUD Needs Index[45]
Communities: By points, alphabetically				
7	Cincinnati	8	16	11
7	Cleveland	3	4	4
7	Newark	2	1	1
7	New Orleans	6	26	2
7	Pittsburgh	5	9	18
7	St. Louis	1	6	3
6	Akron	21	17	8
6	Atlanta	24	30	18
6	Baltimore	9	19	22
6	Boston	7	7	10
6	Buffalo	4	5	14
6	Chicago	14	8	13
6	Detroit	12	14	8
6	Louisville	15	27	17
6	New York	19	2	15
6	Oakland	18	--	12
6	Philadelphia	11	10	16
6	Rochester	12	11	24
5	Birmingham	10	31	5
5	Columbus	32	28	37
5	Kansas City	25	23	30
5	Los Angeles	35	24	31
5	Milwaukee	23	18	27
5	Portland	22	--	36
5	San Francisco	16	12	25
5	Toledo	30	--	38
5	Washington	20	25	7

Table I-5: Distress Rankings on Different Indices for Cities and Urban Counties Over 250,000 Population (Continued)

4	Denver	28	25	32
4	El Paso	40	41	22
4	Fort Worth	39		33
4	Long Beach	37		40
4	Minneapolis	17	21	28
4	Norfolk	27	36	21
4	Sacramento	42	33	35
4	San Antonio	33		19
4	Seattle	29	15	41
4	Tampa	43	42	26
3	Miami	31	34	20
3	St. Paul	25		34
3	Wichita	41		47
2	Albuquerque	54		48
2	Austin	50		50
2	Baton Rouge	46		39
2	Dallas	47	38	43
2	Indianapolis	44	37	57
2	Memphis	36		23
2	Oklahoma City	38	39	42
2	Tucson	54		51
1	Charlotte	47		44
1	Honolulu	57		52
1	Houston	50	43	46
1	Jacksonville	52		45
1	Nashville-Davidson	52		55
1	Omaha	34		49
1	Phoenix	56	45	56
1	San Diego	49	32	53
1	San Jose	58	44	58
1	Tulsa	45		54

Conclusion

Evidence and analysis provided in this chapter suggest the many difficulties frustrating a 'consensus' definition of distress. In this context, the criteria used in the UDAG program to define eligibility seem fair. While they should be subjected to continuous refinement, they currently generate a list of distressed communities which appears reasonable and which parallels in many ways similar lists developed by experienced analysts and reputable groups outside of HUD.

Footnotes

1. This categorization has been partly suggested by Richard Nathan and Paul Dommel, "Targeting Federal Grants," Brookings Institution, March 23, 1979. A further discussion of issues in defining and measuring relative distress can be found in *City Need and Community Development Funding*, HUD, 1979 and *City Need and the Responsiveness of Federal Grant Programs*, Congressional Budget Office, 1978.

2. This distinction between trend and level is in part a result of data obsolescence. For instance, the last poverty counts at the jurisdictional level were based on 1969 incomes of 1970 residents. However, poverty estimates for very large central cities and for central cities aggregated by region show that by 1976 the older, declining communities had a much higher relative and absolute concentration of poverty (based on income) than in 1969. Interestingly, of the 17 UDAG-ineligible communities over 250,000 population, only four in 1975 had a per capita income level below the UDAG median.

3. For example, poverty rates and level of per capita income are highly correlated, as are age of housing and population loss. However, the correlation between these variables is by no means perfect. For instance, many moderately aged cities (in terms of housing stock) are among the highest population losers. (See *City Need and Community Development Funding*). Similarly, per capita income (1975, or even 1969) is only moderately correlated with the 1969 rate of poverty.

4. These include: *City Need and the Responsiveness of Federal Grant Programs*; *City Need and Community Development Funding: The Current Fiscal Condition of Cities*, Joint Economic Committee, 1977; *Report on the Fiscal Impact of the Economic Stimulus Package*, Department of Treasury, 1978; and a series of articles and talks, 1976-1979, by Richard Nathan and Paul Dommel of the Brookings Institution.

5. This core group is shown in Table 4, at the end of this chapter.

6. The UDAG statute provided grants for severely distressed cities and urban counties. While not providing a specific definition of distress, the statute identified several factors which were to be taken into account by HUD in distributing aid; among them, age and condition of housing stock; average income; population outmigration; and stagnating or declining tax base. Further, it imposed a needs test; that is, grants "shall be for the support of severely distressed cities and urban counties that **require** increased public and private assistance in addition to the assistance made available under this title and other forms of federal assistance."

Both the factors enumerated in the statute and the needs test defined in the law indicated that at the time the legislation was enacted, Congress clearly wanted UDAG funds to assist urban jurisdictions which faced seemingly pervasive underlying social and economic problems and manifested related evidence of fiscal stress. In effect, the program was directed at responding to problems faced by "distressed" jurisdictions as a whole. It was seen as a means to help them promote viable urban communities.

7. Regulations released in early 1979 specified small city eligibility thresholds with similar factors (although somewhat reduced because of data availability). A small city of 25-50,000 is eligible if it makes three qualification points, based on the following:

1. poverty greater than the large city or urban county standard: 1 point
2. net growth of per capita income less than the large city standard: 1 point
3. job growth less than the large city standard: 1 point
4. age of housing greater than the large city standard: 1 point
5. population growth less than the large city standard (modified to include only 1972-75): 1 point
6. a bonus point for poverty twice the poverty standard: 1 point
7. a bonus point for age twice the age standard, as long as poverty meets the standard: 1 point
8. a loss of 1 point for poverty less than half the standard.

A city with less than 25,000 population follows the same three-point eligibility system except that the job growth standard (#3) does not apply.

8. These variables will be updated in 1979.

9. 16.86% is the high-poverty threshold and 7.42% is the low-poverty threshold.

10. Puerto Rican cities and urban counties are not included in these tallies.

11. The rather large growth of some communities exaggerates this figure. The other averages are not as distorted by extreme cases and are reasonably close to the median of the group.

12. Although these 94 communities are less than 30% of all eligible communities, they have almost half the population of the eligible communities and a population equal to that of all ineligible communities.

13. Although, on average, there is a considerable difference between the two categories of communities, there are probably cases of two-threshold jurisdictions being more distressed than three-threshold jurisdictions. Any system of measuring distress, however, will have some arbitrary cutoffs at the margins.

14. Many of the ineligibles in the West are prosperous suburban communities that have 50,000 or more persons.

15. This rather high percentage of eligible communities has caused some critics of UDAG to argue for a tightening of requirements rather than an opening.

16. The first three variables discussed here—age of housing, poverty level, and population growth lag—are those singled out as the primary criteria for ranking communities in terms of distress during the selection phase of the UDAG process.

17. It is worth noting that in the first three rounds of large city and urban county competition, communities with projects chosen had an aged housing stock that averaged only 6 percentage points more than that of communities with rejected projects.

18. The source for these arguments is Patricia Dusenbury, "*Issue Paper #9*," Southern Growth Policies Board, December 1978. The argument about undue weighting is primarily handled in the discussion of the other UDAG variables.

19. See *City Need and Community Development Funding*. Of course, variables related to age of housing such as population density might have independent

explanatory power for certain types of urban problems. Indeed, this HUD analysis created a separate dimension of need from the density factor.

20. Since 1974, HUD has sponsored and Census has conducted an Annual Housing Survey of 75,000 households nationally and 5,000-15,000 households in each of twenty SMSAs (60 over a three-year period). This survey provides useful estimates of housing and neighborhood characteristics according to various regional, city type, and household backgrounds.

21. The UDAG legislation cited abandonment as a sign of economic and physical decline. It is usually associated with such factors as population outmigration, a lag or decline in real property value, and higher operational costs (e.g., fire protection).

22. These results are based on a 25-city sample. A much higher percentage of households noted the "presence" of abandonment. Studies which have linked abandonment to age of housing include George Sternlieb, *Residential Abandonment: The Tenement Landlord Revisited*, Rutgers University Press, 1973, and George Sternlieb and James Hughes (eds.), *Post-Industrial America*, Rutgers University Press, 1975.

23. 1976 Annual Housing Survey aggregate data also show that 8.7 percent of all central city households in pre-1940 housing were "bothered by" abandonment (a much higher percentage noted its "presence"). This figure compares with 4.7 percent for **lower income households** in units built after 1940, and with only 3.6 percent for **all households** in units built after 1940. When Southern central cities are examined, the relative figures for "bothered by abandonment" are comparable: 7 percent (all households in pre-1940 units), 4.0 percent (low-income households in units built after 1940) and 3.0 percent (all households in units built after 1940). For an explanation of the Annual Housing Survey and its use, see *City Need and Community Development Funding*.

24. George Peterson of the Urban Institute is preparing the first comprehensive study of infrastructure needs and costs. Preliminary evidence suggests the significance of community age in determining high maintenance and replacement costs.

25. Dusenbury, *"Issue Paper #9."*

26. HUD compensates somewhat for the 1970 outdatedness by computing poverty percentages on the basis of 1970 poverty counts and 1975 population (both adjusted for geographical changes). Even so, the rate of poverty credited to Southern central cities is somewhat higher than that credited in the 1975 Census regional estimates of poverty. Neither the HUD nor Census estimates adjust poverty for cost of living differences.

27. George Peterson, *"Capital Spending and Capital Obsolescence,"* in *The Fiscal Outlook for Cities* (Roy Bahl, ed.), Syracuse University Press, 1978.

28. Issues of fiscal burden as related to local income levels will be discussed further in the next chapter.

29. The advantages and disadvantages of the population decline variable are discussed *City Need and Community Development Funding*.

30. See George Peterson, *"Finance,"* in *The Urban Predicament*, Urban Institute, 1976. See also Muller, *Growing and Declining Urban Areas: A Fiscal Comparison*, Urban Institute, 1976. This topic will be discussed more fully in the next chapter.

31. Marshall Kaplan, Gans and Kahn, *Growth and the cities in the South: A Study in Diversity*, White House Conference on Balanced National Growth and Economic Development, 1977, and Patricia Dusenbury and Thad Boyle, *Southern Urban Trends 1960-77*, Southern Growth Policies Board, 1978.

32. However, controlling for population size, the 1974 per capita income in the South was as high as that in the North for communities above 100,000 population. Indeed, of the 18 UDAG-ineligible communities over 250,000 persons, only 4 would have met a per capita income level threshold – the same number that could meet a percentage growth threshold.

33. Dusenbury, *"Issue Paper #9."*

34. Communities in Florida, California, and Arizona have a higher unemployment rate than counterpart communities with otherwise similar growth of job and income characteristics. Seasonal job turnover (e.g., from tourism) might explain some of the discrepancy.

35. E. Terrence Jones and Donald Planes, *"Formula Feedback and Central Cities: The Case of the Comprehensive Employment and Training Act,"* *Urban Affairs Quarterly*.

36. A comprehensive study of the unemployment indicator is *Counting the Labor Force*, (Draft), National Commission on Employment and Unemployment Statistics, 1979.

37. For instance, in 1976 the percentage of the unemployed who were out of work more than 27 weeks ranged from 3 percent in the Houston SMSA to 29 percent in the New York SMSA.

38. Many communities that fail population growth eligibility for 1960-1975 still obtain employment growth eligibility for 1967 to 1972. The difference in dates may be a significant cause of the difference in eligibility, since newer communities often did not begin to decline until the late 1960s or early 1970s. Recent job data suggest a continuation of 1967-72 trends in large communities. The new Census of Business (conducted in 1977, published in 1979) will soon permit a comprehensive updating of the indicator for all UDAG large communities.

39. HUD is now testing a 1970-76 as well as a 1960-76 measure. One possibility is to use both measures but to set the threshold lower than the median for each. (A community would have the choice of either measure to meet the population threshold.)

40. Indeed, in testing the economic-fiscal targeting of major Federal aid programs, Treasury recently gave an important role to the UDAG ranking system. The cities were categorized by their number of UDAG thresholds passed.

41. The UDAG eligibility system differs from many measures of economic-fiscal distress by including poverty (or by giving it special weight) and by defining growth of per capita income as net growth instead of percentage growth, thereby favoring communities with initially lower levels of income. When compared to a recently developed HUD index which heavily weights a poverty factor (.4, compared to .35 for age and decline and .25 for density, rent, and unemployment), the UDAG eligibility system identifies a similar set of severely and moderately distressed communities. Of the 58 communities over 250,000 population, only Memphis scored needier than average on the HUD needs index and failed to make UDAG eligibility.

42. Each of the 6 thresholds passed counts as one point. In addition, a point is given for high poverty (more than 1.5 times the standard). 3 or more points indicate UDAG eligibility.

43. 1 is most distressed, 58 is least distressed. The median is 29.5.

44. 1 is most distressed, 45 is least distressed. The median is 23. Several CBO cities smaller than 250,000 are not included in this table. For instance, Jersey City (ranked third in the CBO sample on the basis of economic need) had a 1975 population below 250,000 and thus does not appear on this table.

45. 1 is most distressed, 58 is least distressed. The median is 29.5.

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Chapter II
Fiscal Strain in Distressed and Non-Distressed Communities

Chapter I indicated how UDAG eligibility criteria divided communities into two categories, distressed and non-distressed. Chapters II, III and IV will explore the meaning of distress in terms of its impact on community finances and its relevance to pocket of poverty options in non-distressed jurisdictions. In this chapter on fiscal strain, the discussion focuses on the following questions:

- What are the methodological problems involved in measuring fiscal strain?
- What are the sources of local revenue, and what factors cause revenue to grow or decline?
- What is the function of annexation in causing or alleviating fiscal strain?
- What are the relative tax efforts of distressed and non-distressed communities?
- Is the fiscal burden for residents of UDAG-eligible communities noticeably different from the fiscal burden in ineligible communities?

Methodological Issues

Many interpretive and data problems, some even thornier than those mentioned in the previous chapter, prevent a simple answer to questions regarding relative fiscal burdens. Neither comprehensive nor strategic fiscal data about urban jurisdictions is readily available. Those indices that can be secured often lack uniform definition or are not directly relevant.

Clearly, it is difficult to convert local fiscal data into comparable patterns of expenditures, revenue capacities and tax efforts. Functional responsibilities and revenue sources often differ from community to community. Some jurisdictions shift taxes to non-residents, others do not. Efforts to compare relative fiscal burdens must acknowledge the differential impact of national economic changes on local economies. At a minimum, assumptions concerning the effect of cyclical patterns must be accommodated and related to the time periods selected for analyses. Finally, wage and service levels differ from jurisdiction to jurisdiction, and changing boundaries resulting from annexation often obscure comparative analyses. Cities which have annexed their suburbs in recent years argue that annexation results in favorable revenue/cost equations for the annexing community. Precise benefit/cost analysis is often difficult because of overlapping tax and service jurisdictions serving the same area, difficulties in measuring the value of local decisions to favor newly annexed areas over older areas with respect to expenditures, and so forth.

Tax effort—or, to put it more accurately, relative tax effort—is generally perceived as a fair way to test local use of resources to respond to local problems. Usually it is defined in terms of the ratio of local taxes to revenue capacity.[1] Despite its compelling simplicity, the measure is a tough one to quantify precisely.[2] For instance, user charges, sales taxes, and income taxes paid to the jurisdiction by non-residents count as "local" taxes.[3] Furthermore, the taxes paid by residents to the central city jurisdiction might be only a fraction of the taxes they pay to

purchase local government services from the county or special service districts. Finally, taxes paid for local services might represent a "voluntary" preference for such services rather than a response to essential needs (however they are defined) that are created by a community's population characteristics, condition of structures, population density, and concentration of daytime population in the Central Business District. The distinction between "voluntary" and "involuntary" spending is one of the more heated fiscal measurement controversies, particularly between growing and declining areas.[4]

Despite the above and other complexities, it is possible to gain some insight into the comparative fiscal condition of distressed and non-distressed communities. The data presented in the rest of the chapter suggest that, on average, communities eligible for UDAG appear to have less local resources to meet much greater local needs than communities currently ineligible for UDAG. The data also suggest that, on average, residents of distressed larger communities pay a much higher proportion of their income (and of their revenue capacity) to local taxes than do residents of non-distressed communities.

Revenues

Local jurisdictions have two major sources of revenue: local (including property taxes, sales taxes, payroll taxes, user charges, and bonds) and inter-governmental (including state and Federal aid). Despite recent increases in Federal and state aid, the largest share of jurisdictional revenues still comes from local sources in most communities.[5]

Since the property tax is still the primary source of local revenue for most jurisdictions,[6] a community's tax base is strongly associated with the value of its real property. Such distress factors as lagging per capita income population outmigration, employment growth lag, and abandoned or poor housing are all reflected in relatively low real property values.

Table II-1 portrays property values in a number of UDAG eligible and ineligible communities (some proxied by their county). It also computes the ratio of this value to per capita income to suggest further characteristics distinguishing distressed and nondistressed areas and to suggest how a comparison using only per capita income understates the fiscal strain in declining communities.

As Table II-1 indicates, the mean value of taxable property in the sample of severely distressed areas was $7300 per capita, whereas per capita property value in the sample of UDAG-ineligible areas averaged $18,823. Equally important, the data indicate that the ratio of taxable property value to income was significantly lower in the severely distressed communities than the ineligible ones. Distressed communities tend to have higher proportions of income-transfer aid as opposed to earned income and lower private investment in housing and in commercial-industrial property.

Recent analysis shows important trends in property value and taxation for a comparable sample of communities.[10] Between 1971 and 1976, all of the UDGA-ineligible communities in the sample had a change in real market value above the median and none had an increase in their effective property tax rate. By contrast, one third of the UDAG-eligible communities had an effective property tax increase during the same period. Similar findings are reflected in other reports. For example, of 31 very large jurisdictions that were studied for short-term financial changes in 1976-77, only Memphis joined 7 UDAG eligible communities in having to raise its property tax rate by more than 10 percent.[11] Annual Housing Survey evidence on housing abandonment, only recently analyzed at the individual city level by HUD, confirms the trends in property value and suggests one reason why per capita costs are higher for certain municipal functions in UDAG-eligible communities. Of a sample of 25 very large communities, the UDAG-eligible communities averaged twice the rate of abandonment and other neighborhood problems as the ineligible communities.[12]

Another important source of municipal revenue is the general and selective sales tax, which can sometimes reach non-residents as well as residents. In FY 77, for cities over 300,000, sales tax revenues represented 23 percent of all taxes and 17 percent of all own source revenues. Variations in per capita sales can be linked to UDAG distress factors such as population decline, employment and income lag, neighborhood abandonment, and poverty. In a sample of 30 very large communities, the cities eligible for UDAG had in 1976 a median per capita sales level of $3,418 as compared to a higher median per capita of $3,856 in ineligible communities. Similarly, the median growth in per capita sales (1972-76) for ineligible communities was 38 percent,

Table II-1: Per Capita Real Taxable Property Value and Income

UDAG-ELIGIBLE AREAS
(with 5+ threshold points)[7]

Community	1975 Per Capita Income	1976 Per Capita Real Property Value	Property to income Ratio
St. Louis	$4,278	$ 5,962	1.4
Buffalo	4,234	10,716	2.5
Detroit	4,661	6,251	1.3
Hartford	4,201	4,763	1.1
Pittsburgh	4,919	8,711	1.8
Philadelphia	4,660	8,162	1.8
Springfield	4,337	8,532	2.0
Boston	4,503	7,953	1.7
Baltimore	4,577	7,038	1.5
Jersey City	4,555	4,905	1.1
Mean	4,493	7,300	1.6

UDAG-INELIGIBLE AREAS

Community	1975 Per Capita Income	1976 Per Capita Real Property Value	Property to income Ratio
Dallas Co.[8] (Dallas)	$5,688	$15,993	2.8
Harris Co.[8] (Houston)	5,815	27,438	4.7
San Diego	5,357	19,470	3.6
Maricopa Co.[8] (Phoenix)	5,072	16,118	3.2
Tulsa	5,842	17,683	3.0
Nashville	4,887	16,238	3.3
Mean	$5,443	$18,823	3.4

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Table II-2: Per Capita and Total Income for Eligible and Ineligible UDAG Communities (weighted averages)[14]

	PCI 74	1969-74 Net PCI	1969-74 % PCI	1970-75 Pop. Growth	% Growth in[15] Total Income 1969-74 (est.)
UDAG-Eligible	$4601	$1343	41.8%	4.0%	40.0%
Most Distressed *	$4471	$1242	38.9%	7.1%	36.6%
UDAG-Ineligible	$5110	$1626	47.4%	8.5%	51.4%

NOTE: The urban consumer price index rose 36.4 percent from 1969 (Average) to 1974 (Average).

lagging behind the per capita sales growth of 44 percent for eligible communities.[13]

Although per capita income does not cover all sources of taxable income and traditionally is not adjusted for cost of living disparities, it provides a reasonable measure of a community's revenue possibilities. Ultimately, the level and growth of per capita income underly the level and growth of other tax bases, and unlike other measures, per capita income can be computed for all cities rather than just a small sample. Table II-2 **above** illustrates the level and growth of per capita income in the UDAG-eligible communities (including a subset of the most severely distressed) and the UDAG-ineligible communities over the period 1969-74. Table II-2 also indicates population growth which, with per capita income growth, conveys the increase in total income available to a community. Later sections of this chapter will show how a lagging total income is sometimes as important as lagging per capita income in understanding the fiscal strain on cities that have fixed debt, maintenance, and labor obligations.

As the table indicates, the UDAG-eligible communities (particularly the most distressed group) have a considerably lower level of per capita income, and a lower growth rate of per capita income and total income than ineligible communities. Given the tendency for per capita real property values to show larger disparities than the income differences, the per capita income gap between eligible and ineligible communities indicates significant disparities in revenue capacity.

Sustained higher rates of unemployment in eligible communities further suggest that the 1974 per capita income "deficit" shown in Table II-2 may have widened in recent years. Table II-3 shows, that in fact the unemployment gap between eligible and ineligible cities over 250,000 persons has become much higher since 1974.[17]

Table II-3: Unemployment Rates for Eligible and Ineligible Cities Over 250,000 Persons[18]

	1970	1974	1975	1977	1978
UDAG-eligible	5.1%	6.4%	9.7%	8.2%	6.9%
UDAG-ineligible	4.0%	5.3%	7.7%	6.2%	5.0%

Assuming that a lagging performance of central cities in the aggregate particularly affects distressed communities (as recent unemployment data suggest), the 1978 Census data confirms a further deterioration of fiscal capacity for distressed communities. Between 1975 and 1977, the ratio of departing to entering middle income families in the central cities was almost three to one. In large part because of this net outmigration, central cities as a group lost over $17 billion in foregone income during this brief period.[19]

In terms of the capacity to finance capital improvements through local bonds or debt instruments, UDAG-eligible communities are usually in a worse position than ineligible jurisdictions. Some distressed communities carry a heavy debt burden from previous capital outlays, made before the city had lost a large number of middle income residents and commercial or industrial establishments. Even when their cumulative debt is not far about the average[20] for communities of comparable size and resources, distressed communities often face considerable needs in the form of maintenance of older structures and essential replacement. As one noted analyst observes, communities losing population do not forego capital requirements to the same degree:

The dilemma confronted by the older cities is that few of the costs associated with urban growth are easily reversible into economies of diminution. Once a city's road, sewer, and water networks have been constructed to serve a given population, the cost of maintaining these networks does not decline significantly when population shrinks. On the contrary, as capital infrastructure ages, it becomes more costly to keep in repair.[21]

Because of their cumulative debt load or their declining economic prospects, distressed communities either pay higher than average costs for new bond obligations or cannot enter the market. Growing communities, with less of a cumulative debt load or greater economic prospects for their new investments, have greater and cheaper access to the nation's bond markets. Further, growing cities and urban counties are more readily able to demand that private developers pay for a high share of capital infrastructure costs in less developed parts of their respective areas.[22]

Operating Expenditures

Although costs for common urban services are partly a function of staffing and wage choices, the need for such services can play a significant part in causing community expenditures to differ. Well above average rates of unemployment, violent crimes, fire, abandoned housing, litter, infrastructure deterioration, and even poverty are much more common in the UDAG-eligible communities than in the ineligible communities.[23] Typical is the Annual Housing Survey data that show perceived problems of abandonment to be twice as high per capita in the largest eligible communities compared to the largest ineligible communities. Likewise, recent data on fire incidence showed that fires per capita "remain about twice as frequent in older cities compared to lower density, growing jurisdictions."[24]

In terms of lives or property lost, the most damaging cases of arson in recent years have clustered in the severely distressed communities identified by UDAG. Therefore, real needs and service costs certainly contribute to the broad expenditure differences between eligible and ineligible communities in Table II-4 below.[25]

Table II-4: Median Per Capita Expenditures for Common Service[25] Functions for the Largest Cities and Urban Counties (FY 77)

	Police	Fire	Current Sanitation	Combined
UDAG Eligible	$70	$32	$18	$122
UDAG Ineligible	$40	$23	$12	$ 75

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It is noteworthy that of the eight UDAG-ineligible communities in the 30-city sample, only Memphis, the poorest ineligible jurisdiction in the sample, had per capita expenditure figures somewhat above the ten communities with the lowest per capita expenditure rates. If expenditure rates had been compared to income or to other measures of capacity, the distinction between eligible and ineligible communities would have widened further.

Annexation

The issue of business and residential outmigration raises the question of annexation.[26] To what extent does annexation, a practice largely confined in recent years to more prosperous communities,[27] contribute to revenue and to what extent does it contribute to expenditure? Annexing communities have argued that, at least in the short run, annexation adds to municipal costs without giving an equivalent return in revenues. Some annexed areas, they insist, are not affluent and need substantial municipal assistance. Even well-to-do suburbs, they claim, require large initial investments in capital construction and also urban services. Moreover, they assert that the inclusion of a higher-income population from the annexed suburbs statistically masks large pockets of poverty in the central city that would otherwise receive Federal aid.

On the other hand, older cities which have not been able to annex their suburbs argue that such statistical "masking" is in fact a real increase of tax base and that consolidated jurisdictions, as opposed to ringed central cities, have much greater revenues with which to deal with their core cities. Some severely distressed communities also note that the intensity of their inner city problems--for instance, the problem of structural unemployment of minorities surpasses the problems of inner city areas in growing cities and counties.

The fiscal capacity and expenditure data presented in previous sections, along with the tax burden data provided in Table II-6, suggest that annexing communities are at a definite advantage in terms of fiscal burden.[28] Studies of Phoenix and Richmond annexations further suggest that annexation is either immediately profitable for the core city or becomes profitable in a very short period.[29]

Cost/benefit analyses aside, there remains a debate over the equity of "penalizing" annexing communities by withholding UDAG funds from their pockets of distress. Many cities over 250,000 persons that are presently ineligible for UDAG would have been eligible in their 1960 form—that is, before major annexations and consolidations of the 1960's or 1970's took place. Those defending eligibility for pockets of poverty consider it counterproductive to exclude cities that took progressive governmental actions in recent years or might take them in future years. Those opposed to eligibility for pockets of poverty would argue that many communities that annexed significantly in the 1960's or early 1970's are able to meet UDAG distress criteria. They also observe that political as well as fiscal motives have governed annexations and have sometimes worked against the older core cities with their minority concentrations. For this type of dialogue, normative judgments are often required as much as data. But at least one issue ought to be taken into account: the extent to which non-distressed consolidated jurisdictions are currently using their own resources to meet the need of their distressed areas. The quantitative and qualitative information provided in the next section of this chapter and in Chapter IV addresses this issue.

Comparative Tax Efforts

As defined in the opening section of this chapter, tax effort describes the ratio of a community's local taxes to its overall revenue capacity.[30] Communities whose expenditures remain high while their tax bases decrease are likely to show higher than average tax effort, thereby creating fiscal problems. Furthermore, if a very needy community lowers its levels of services and capital maintenance to reduce its tax effort, it might accelerate the outmigration of persons and businesses.

The following table (which controls only partially for differing jurisdictional responsibility) uses a simple income measure of tax capacity. It suggests that tax effort is higher among distressed cities (typically UDAG-eligible), and that relatively high local tax efforts have been a fact of life for some time.

Tables II-6 and II-7 represent an intensive analysis of tax effort data (controlled for differing jurisdictional responsibility). They indicate what residents of various communities actually pay in state and local taxes relative to income.[32] Though tax effort varies considerably within the broad categories of UDAG-eligible and UDAG-ineligible communities, the average eligible community shows a significantly higher tax effort[33] data for middle income households than that shown for the average ineligible community.[34]

Table II-6: Estimated Burden of Major State Local Taxes on a Family of Four with $20,000 Income, 1975

City	Tax Burden as a % of Income[35]	Total State/ Local Major Taxes	Annual % Growth due Annexation[36] 1960-70	1970-75
New York	18%	$3,698	0	0
Boston	16%	3,169	0	0
Milwaukee	15%	2,936	.5	0
Buffalo	14%	2,739	0	0
Los Angeles	12%	2,484	.1	0
San Francisco	12%	2,311	0	0
Chicago	10%	2,010	0	0
Philadelphia	10%	1,901	0	0
Detroit	10%	2,070	0	0
Baltimore	10%	1,930	0	0
Pittsburgh	10%	1,976	0	0
Atlanta	9%	1,730	.2	-.2
San Diego NE	9%	1,823	4.9	.3
Indianapolis NE	8%	1,657	18.4	-.3
St Louis	8%	1,690	0	0
Phoenix NE	8%	1,514	2.8	1.9
Denver	8%	1,679	2.8	3.1
Kansas City	8%	1,518	9.2	0

Table II-5: Mean Taxes Per $1,000 Community Income, by Category of City Hardship[31]

Quintile of hardship	1970	1973	1976	1976 1970	1976 1973
1 Taxes	$48.14	$53.52	$51.31	1.07	.96
2 Taxes	$44.50	$50.12	$48.89	1.10	.98
3 Taxes	$27.66	$33.18	$34.40	1.24	1.04
4 Taxes	$23.74	$24.66	$24.45[31]	1.03	.99
5 Taxes	$26.50	$29.12	$28.87	1.09	.99

Table II-6: Estimated Burden of Major State Local Taxes on a Family of Four with $20,000 Income, 1975 (Continued)

Cincinnati	8%	1,510	.1	0
San Antonio	7%	1,493	2.2	7.4
New Orleans	7%	1,337	0	0
Seattle	6%	1,298	.2	.1
Columbus	6%	1,274	4.4	5.0
Cleveland	6%	1,326	0	0
Dallas NE	6%	1,252	.4	.7
Houston NE	5%	1,074	3.0	2.4
Memphis NE	5%	1,067	5.3	5.1
Nashville	5%	988	35.1	0
Jacksonville NE	3%	603	38.2	0

Table II-7: Distribution of Major State-Local Tax Burdens Relative to Family Income Size, Comparisons for Largest UDAG-Ineligible City of Each State, 1976 (1975 Population Over 100,000) (Tax Burdens as Percentages of Income) (Adjusted Gross Income, Family of Four)

All Cities (Average)	9.8 (100)[a]	7.9 (100)[a]	7.6 (100)[a]
UDAG-Ineligible Cities:			
Phoenix	10.6 (108)	7.7 (97)	7.4 (97)
Little Rock	8.4 (86)	6.6 (83)	6.6 (86)
Indianapolis	11.5 (117)	8.8 (110)	7.4 (98)
Jacksonville	6.4 (65)	4.4 (55)	3.4 (44)
Des Moines	11.6 (117)	9.0 (114)	8.8 (116)
Omaha	10.2 (104)	8.8 (110)	7.9 (104)
Las Vegas	7.3 (74)	5.0 (63)	3.9 (51)
Albuquerque	6.1 (62)	5.5 (70)	5.7 (75)
Charlotte	9.6 (97)	7.9 (100)	8.2 (107)
Oklahoma City	7.2 (73)	5.3 (67)	5.4 (61)
Memphis	7.8 (79)	5.4 (68)	4.2 (55)
Houston	7.2 (73)	4.9 (61)	3.7 (49)

Conclusion

Methodological and data problems combine to make it difficult to measure fiscal burdens among and between UDAG eligible and ineligible communities. However, it is possible to isolate fiscal patterns and to determine general trends. In this context, UDAG-eligible jurisdictions, as a class, tend to reflect lower per capita levels and growth rates of revenue or revenue services (e.g., property values, sales levels, and so forth) than non-UDAG communities. Moreover, because of their greater physical and social problems, UDAG eligible communities appear to face greater expenditure pressures than non-UDAG communities. Finally, the overall tax effort of UDAG eligible jurisdictions is considerably higher than the tax effort of UDAG-ineligible jurisdictions.

Footnotes

1. A fuller explanation, with qualifications, is given later in the chapter.

2. A useful conceptual overview is given by Stephen Barro, *The Urban Impacts of Federal Polices: Volume 3, Fiscal Conditions*, Rand Corporation, 1978.

3. Of course, the taxes paid by non-residents often pay for the additional services they require from the city.

4. Information on relative service costs comes from Thomas Muller, *Growing and Declining Urban Areas: A Fiscal Comparison* and from Muller's article, *"Service Costs in the Declining City"*, in *How Cities Can Grow Old Gracefully*, House Banking, Finance, and Urban Affairs Committee, 1978. A useful application of relative costs and fiscal capacity to Southern cities is provided in MKGK, *Growth and the Cities in the South: A Study in Diversity*.

5. For FY 1977 (1976-77) in cities over 300,000, local revenues (exclusive of bond revenues, which are partially subsidized by Federal and state tax exemptions) amounted to $31.5 billion. Of this total, $13.7 billion was inter governmental (Federal and state) and $17.8 billion came from own sources (of which $13.4 billion were taxes and $4.3 billion "charges and miscellaneous"). For all local jurisdictions, the figures are $60.9 billion in general revenues, with $24.2 billion intergovernmental revenue and $36.7 billion own source. Unless the city is a county, county revenues (and Federal state transfers to counties) are not counted in these figures. Source: *City Government Finance in 1976-77*, U.S. Department of Commerce, January 1979.

6. In FY 1977, for cities over 300,000, property taxes represented 54 percent of all own source taxes and 40 percent of all own source revenues. For smaller communities, the role of property taxes is even higher. Source: *City Government Finance in 1976-77*.

7. The table and some of its interpretation are adapted from testimony given by Thomas Muller to the Joint Economic Committee, Subcommittee on Fiscal Intergovernmental Policy, March 20, 1979. The higher "real" property value in growing communities might be inflated by recent market behavior.

8. These are communities with five threshold points and a poverty bonus or communities with six threshold points. New York City had a somewhat higher per capita value of real property ($15,093) and property-income ratio (2.9) than the other eligible communities.

9. Property value data were available only for the entire county and might be somewhat biased by developments outside city limits. However, the central city in each case had 55 to 70% of the population of the total county and a level and growth of per capita income almost identical to those of the county. Moreover, the data for these 3 "counties" are comparable in magnitude to the data for the 3 growth cities.

10. George Peterson, *"The Fiscal and Financial Capacity of City Governments,"* a report prepared for HUD's Urban Policy Group.

11. An analysis prepared for the Urban Institute by Phillip Dearborn and reported in Peterson's report (footnote 10).

12. For UDAG-eligible communities the average rate of abandonment perceived as a problem was 7.1%, for the ineligible, 3.6%. The disparity between median rates of abandonment as a problem was even higher: 7.3% for the set of eligible communities 2.1% for the ineligible. On this important indicator of need, several eligible communities had a relatively low incidence of problems, and two of the ineligible cities had a moderate incidence. (From an article in preparation, *"The Age of Housing Indicators,"* by Harold Bunce and Robert Goldberg.)

13. To avoid anomalous results from a few high growth communities, the median statistic is used. Also, the 1976 data comes from a non-Census source (1977 Survey Buying Power, *Sales Management Magazine)* and thus must be used conservatively.

14. These are averages weighted by 1975 population to convey aggregate differences. As Table I-3 in Chapter I shows, the unweighted averages show even greater differences by category of jurisdiction. In 1975 the eligible communities had 52.5 million persons, the eligible 27.2 million, and the "most distressed" 26.5 million (see note 3).

15. This is estimated by multiplying the percentage growth of per capita income 1969-74 by 1970-75 population growth (indexed so that 0% growth equals 1.00). The 1969 per capita income is, in fact, the income in 1969 of the 1970 residents. In special tabulations, Census adjusted all of the income and population figures for 1977 boundaries.

16. These are communities with at least six threshold points (including a poverty bonus).

17. Because of methodological changes by BLS and changes in labor market participation, unemployment rates for individual cities are not fully comparable for 1970 and 1974-77 (1978 also differs somewhat). However, these changes do not invalidate the trends conveyed in Table II-3, particularly those for 1974-77. Moreover, low labor participation rates and high long term unemployment are understated for distressed cities by the unemployment rates.

18. In 1977, the weighted unemployment average for *all* UDAG-eligible cities was 8.4% (9.5% for the more distressed), as contrasted to 6.1% for all ineligible cities (See footnote, page 9 for weighting).

19. For a fuller analysis, see *"Whither or Whether Urban Distress"*, HUD, 1979. Most of the foregone income resulted from the net outmigration of families, but some resulted from the lower income of the average inmigrant relative to the average outmigrant.

20. Several studies of fiscal distress have used a per capita debt or per capita long term debt indicator. Despite its appeal, this measure must be used with great caution (especially in correlation analysis). Some of the neediest communities have been restricted by their state or from the bond market in their use of debt financing. Moreover, city debt is often a function of municipal

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responsibility, and debts for some capital functions are much more easily repaid from ongoing revenues. The variable nature of long-term debts can be studied from the detailed line items on debt for the 49 largest cities in *City Government Finance in 1976-77*.

21. George Peterson, "*Finances*," in *The Urban Predicament*, Urban Institute, 1976.

22. George Peterson "*Capital Spending and Capital Obsolescence*."

23. These types of need are related to relative city need in *City Need and Community Development Funding*, HUD, 1979.

24. Data presented in Thomas Muller, "*Service Costs in the Declining City*." In this article, Muller is somewhat optimistic about the possibility that demographic changes in the 1980's (particularly a declining proportion of teenagers) will cause a decline in service needs in presently distressed cities.

25. See also Muller's *Growing and Declining Urban Areas: A Fiscal Comparison*.

26. Data adapted from a chart prepared by George Peterson, "*The Fiscal and Financial Capacity of City Governments*," HUD, 1979.

27. A broad governmental overview of the causes and effects of major annexation consolidation is provided by *The Challenge of Local Governmental Reorganization*, ACIR, 1974.

28. Table II-6 in this chapter (page 12) will present the annual population growth due to annexation consolidation (1960-70, 1970-75) for 29 of the largest communities as well as the estimated tax burden in those communities for a middle income family.

29. These cost-benefit studies, some of the most detailed of their kind, show that even low-density areas (the most costly to service) should pay for themselves in two to three years. In Richmond there was a court suit by minority residents concerning the political impacts and real economic benefits of annexation. The Richmond materials have been published in Muller and Dawson, *An Evaluation of the Fiscal Impact of Annexation on Richmond, Virginia*, Urban Institute, 1975, and in Thomas Murphy, "*Race-Base Accounting*," *The Urban Affairs Quarterly*, December 1978. The Phoenix materials are available in budget reports by The Phoenix Budget and Research and Budget and Management Divisions.

30. As theoretically outlined by Stephen Barro in *The Urban Impacts of Federal Policies*, a sophisticated tax effort measure would take into account local needs as well as local capacity and local taxes (controlling for governmental transfers and jurisdictional responsibility). However, operational tax effort measures usually handle only local taxes and local capacity with capacity serving as an inverse proxy for need (i.e., the lower the need, the higher the capacity and vice-versa).

31. Table adapted from a table by Richard Nathan of the Brookings Institution. The cities in each quintile of hardship are as follows, with 1 being the most distressed and 5 the least distressed according to Nathan's index:
1. Newark, Pittsburgh, St. Louis, Cleveland, Philadelphia, Minneapolis, Oakland, Buffalo, Detroit, Cincinnati.
2. Milwaukee, Chicago, Seattle, Boston, Baltimore, San Francisco, Akron, Louisville, Los Angeles, Rochester.
3. New Orleans, St. Paul, Toledo, Columbus, Norfolk, Birmingham, Atlanta, Sacramento, San Diego, Denver.
4. Dallas, San Jose, Miami, El Paso, Omaha, Wichita, San Antonio, Charlotte, Memphis Tulsa.
5. Honolulu, Albuquerque, Indianapolis, Nashville, Tucson, Long Beach, Phoenix, Austin, Baton Rouge.

Except for San Diego, all of the cities in the first three categories are UDAG-eligible. Six of the cities in the fourth category are presently ineligible, and all of the cities in the last category except Long Beach are presently ineligible. (The term "presently ineligible" is used because the undating of indicators permits new entrants even with the present eligibility system).

32. Although the analysis loses some city specificity by including state and local taxes, it creates a broader sense of "local" tax burden on the residents of a given locality. To the extent the income level underestimates the relative tax base of growing communities, these measures understate their tax effort.

33. Representative of annexing cities and areas would still contend that affluent suburbs in non-annexing regions avoid their responsibility for core city problems. Comparative tax burden data is not readily available to show whether affluent suburban residents of stable SMSA's are taxed less, relative to overall fiscal capacity, than affluent residents of annexing communities. However, a suggestive comparison can be made between the overall local state tax effort of states with similar SMSA concentrations but dissimilar annexing histories since 1960. ACIR analyses show that the highly urbanized growth states of Texas and Florida had a much lower burden of aggregate state and local taxes relative to capacity in both 1972 and 1975 than the average state, let alone the average highly urbanized state. Arizona had a tax effort somewhat below average in 1972 and somewhat above average in 1975 (a very poor year for its tourist economy); the less urbanized states of Indiana, Tennessee, and Oklahoma show tax efforts below or well below the national average. Thus, at least on the aggregate level, states with vastly enlarged cities have more aggregate capacity relative to local-state taxes than states with declining cities. A useful source of tax capacity and expenditure of the state level is Kent Halstead, *Tax Wealth in Fifty States*, NIE.

34. When high-[illegible]y, low income communities such as Cleveland and New Orleans try to restrict municipal tax effort (as reflected in the local and state totals), they have encountered fiscal or labor problems of a kind not ordinarily encountered by growing communities.

35. Taxes includes income, real estate, sales and auto related.

36. Annexations include consolidations. The growth is in population. The data on annexations is provided by Professor Seymour Sachs.

37. NE: Not eligible for UDAG, FY 78.
Source: Philip M. Dearborn, "*Elements of Municipal Financial Analysis, Part II: Budget Performance*," First Boston, 1977. Data originally from "*Tax Burdens in Washington, D.C. Compared to Those of the Nation's Thirty Largest Cities*," Government of the District of Columbia, Department of Finance and Revenue, 1975. The annexation data comes from special tabulations prepared for HUD by Professor Seymour Sachs of the Maxwell School.

38. Adapted from Tables 7-8 of Stephen Lile, "Interstate Comparison of Family Tax Burdens With Residence Location Based on Each State's Largest City", a study prepared for the Kentucky Department of Revenue.

39. The average of the largest city in each state, for a given family income level, is indexed at 100. If only cities eligible for UDAG were used as the standard, the averages would be higher.

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Chapter III
Federal Aid to Distressed and Non-Distressed Communities

Under the present statutes, UDAG grants are intended for distressed cities and urban counties that require aid *"in addition to the assistance otherwise made available* under this title and other forms of Federal assistance." This passage raises the question of the relative adequacy of other Federal resources. During the Senate debates on area eligibility in 1977 and 1978, those who wanted to open up eligibility insisted that the needs of distressed areas in non-distressed communities were not being funded in an equitable manner, and that equity considerations required UDAG-type assistance to large distressed areas within otherwise non-eligible jurisdictions. Opponents of "pockets of poverty" eligibility argued that distressed communities could barely cope with overall needs, and that other Federal programs much larger (and different) than UDAG were available to help non-distressed communities to cope with pockets of distress and their residents. This chapter will explore the sources of Federal aid currently open to both distressed and non-distressed communities. To the extent permitted by the data, it will also respond to the equity question: does the present pattern of Federal aid discriminate against certain regions and jurisdictions?

The following questions will shape the discussion of Federal aid:

- What kinds of direct or indirect assistance qualify as Federal aid to communities?
- What kinds of aid go to states and regions, and how does the distribution of this aid correspond to the location of distressed communities?
- What kinds of Federal grants go directly to communities, and how do other Federal grants compare with UDAG in terms of amount and distribution?
- What has been the flow of Federal assistance to UDAG-ineligible communities in recent years?

Methodological Issues

As with the other topics discussed in this study, problems of data availability and data interpretation complicate the investigation of Federal aid. There is first the problem of data accuracy. Comprehensive data on Federal outlays to communities is neither readily available nor very accurate. Even data on grants to communities is not easily assembled, in part because of the multiplicity of grants and their varied reveiw requirements and in part because some communities receive their grants or grant benefits through intermediary levels of government.

It is necessary to make broad interpretive decisions before analyzing existing data. The decision whether to investigate the level or trend of assistance will affect the relative outcomes. If trends are studied, the choice of a starting and end year will matter, especially since certain years reflect exceptional or unique funding circumstances. If levels are studied, the statistical investigator must decide whether to standardize by dollars per capita or by dollars per target purpose. Furthermore, there is the problem of comparing programs that fund jurisdictions with programs that fund individuals, or of comparing need-targeted programs with spending that does not

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take local need into account. Finally, there is the question of what should be covered. Are grants all that matter? Should procurement be factored into any analysis? What about Federal payrolls?

An additional complication is that the broad categories sometimes used to describe Federal outlays may be misleading. For example, the category "Military Outlays Except Personnel" is somewhat ambiguous with respect to geographical effects until contracts and subcontracts are fully specified. Clearly, the location of the primary contract need not be the location of actual spending.[1] Furthermore, one of the largest outlay categories, "All Other Payments," should at a minimum be broken down into social security payments and social service income-transfers. Based as they are on individual contributions, and not as easily taxable as salaries or profits, Social Security payments seem different than general revenue funds or assistance based on social needs, economic development, transportation priorities and so forth. Only to the extent that the Federal Government greatly increased its own contribution, or the degree that certain jurisdictions had a net in-migration of Social Security recipients, might Social Security payments represent net Federal assistance to the local welfare or tax base. Since Social Security beneficiaries are still disproportionately residents of older and declining areas (despite an outflow to Sunbelt regions), any aggregate category that includes Social Security payments considerably overstates the flow of Federal monies to declining areas and its potential jurisdictional effect.[2]

Even Federal income assistance to individuals — welfare payments, food stamps, Medicaid, and housing subsidies — requires special interpretation. To a certain extent, such programs already target assistance to pockets of poverty, since large numbers of individuals who require such aid live in the distressed subareas of cities and urban counties. On the other hand, it is very difficult to measure the degree to which these forms of aid assist the jurisdictions in which the recipients reside. Hence, a simple calculation of the amount of Federal income-transfer aid flowing to residents of particular communities may tell very little about the urban impact of such funds or their effect in helping distressed jurisdictions.

Another knotty problem in interpreting Federal aid data, especially income-transfer aid, is the role of local contributions. For instance, many Southern and Western states received less per disadvantaged person and receive much less per capita on highly funded Medicaid and welfare programs. However, they often receive less because their own contribution to such programs, a major determinant of such Federal aid, is well below average even after adjustment for revenue capacity. Whether this local contribution is too low or the contribution of other states is too high might be debated, but in any case the net effect is that certain states and cities, usually in declining areas, are credited with Federal outlays that result from higher local tax burdens.

Procurement flows and the results of varied tax code provisions, although difficult to quantify, appear to provide an indirect form of financial assistance to growing areas whose spokesmen sometimes assert unfair treatment with respect to grants-in-aid. Indeed, most Federal purchases are based on short-term, least-cost competitive principles. They tilt toward newer areas where labor, capital and land costs are often lower. Though seemingly cost-efficient, these allocation principles, for understandable reasons, do not take into account the high socio-economic costs of under-utilized labor or capital and private disinvestment in bypassed jurisdictions and regions.

Varied Federal housing subsidies and IRS provisions which indirectly allocate geographic benefits do not usually show up in most analyses of Federal expenditures and revenues or in inter-regional, state or city analyses of Federal aid flows. But these foregone revenues and incentives not only represent considerable dollars — they also, like procurement policies, appear to tilt business and household decisions toward growing, newer areas. For instance, the investment tax credit program, which has favored new investment in plants and machinery in growing areas, has provided a $19-billion-a-year Federal subsidy, according to GAO.

In sum, gaining an accurate handle on the flow and benefits as well as the costs of Federal aid is difficult. Aggregate lists and totals, particularly those that appear in the media, often lump transfer payments with direct grants, aid to states and counties with aid to cities, loans and guarantees with direct aid. Funds which flow to individuals irrespective of location are not separated from assistance to jurisdictions. Funds which can only be used for limited purposes and are not directed toward alleviating distress are recorded as benefiting communities in distress.

Federal Aid to States, Regions and Cities

Equity and indeed efficiency do not necessarily consist of giving all types of aid or equal amounts of aid to all areas of the country simultaneously. Historically, most Federal aid has been focused on an apparent unequal geographic distribution of identified problems or has responded to differential burdens placed on different parts of the nation at any one point in time. The absence of adequate water systems, electric facilities, or roads has generated place-specific Federal programs. So too have different economic or social conditions such as rural poverty. Even programs for needy people have sometimes resulted in the geographic concentration of Federal funds because of the location of the individuals requiring aid.

A recent state and regional analysis by staff of the Advisory Commission on Intergovernmental Relations (ACIR), "Federal Expenditures and Revenues in Regions and States," contains a series of significant tables on Federal outlays and revenues[3] up to 1974-76 (the end point of the study). They place the distribution of Federal aid in perspective by pointing out the following patterns:

1. Southern and Western states usually receive more in Federal expenditures than is paid out in Federal revenues. However, state variations within regions are considerable, often more considerable than the variation between regions. (Table III-1)[4].

2. The advantageous ratio of expenditures to revenues in the South and West has decreased in the past 25 years, but the decrease has primarily resulted from the relatively greater growth of per capita revenues paid in those regions to the Federal government. That growth, in turn, results from the relatively greater growth in real income level and profits in those regions — two revenue sources that are taxed progressively. (Tables III-1 to III-3).

3. New England and the Mid-Atlantic (including Washington, D.C.)[5] regions show an improved expenditure to revenue ratio, because their per capita revenue contribution has declined (in large part because of lagging per capita and corporate income). (Tables III-1 to III-3).

4. The Great Lakes Region shows a consistently low index score for Federal expenditures received, either in per capita terms or relative to revenues. (Tables III-1, III-2).

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5. While Federal expenditure outlays in each region vary considerably, categories of revenue tend to be consistent within regions. (Tables III-4 and III-5).

Although the subcategories are still very broad, Table III-5 is a useful starting point for any discussion of Federal outlays to states and regions. The subject of much recent controversy, Federal aid to state and local governments nevertheless comprised only 15.3 percent of the Federal expenditures in 1974-76 (and an estimated 17.5% in FY 78[12]). For this category the South and West, in combination, have a slightly favorable share of funds received relative to their overall revenue contribution. In the largest aggregate category of Federal expenditures, "All Other Payments to Personal Income," the South and West also receive a greater proportion of Federal expenditures relative to their overall revenue contributions. In two categories that are becoming increasingly controversial — "Pay of Personnel-Civilian and Military" and "Military Outlays Except Personnel" — the combined Southern and Western advantage is considerable for the first category and the Western advantage is marked for the second category.[13] Table III-5 also illustrates that the Great Lakes region, relatively underfunded in all Federal expenditure categories, lags especially in the "Military Outlays" and "Pay of Personnel" categories.

In a recent study, the Academy of Contemporary Problems focused its attention on the proportion of direct Federal grants going to each of the four Census regions (which differ somewhat from the ACIR regions[14]). Comparing grant distribution on the basis of three different standards (grants per capita, grants per $1000 of personal income, and proportions of Federal grants to State and local revenue[15]), the study concludes that the relative differences between the regions in terms of Federal grant receipts have decreased from 1970 to 1975. This convergence resulted in part from the recession-related jump in welfare grants, which brought the Northeast from third to first position in per capita grants among the four regions (see Table III-6 and III-7). Welfare grants aside,[16] however, the West is first in per capita grant receipts and the South second. In per capita receipt of grants by category, the Northeast in 1975 is highest in "Public Welfare," "General Revenue Sharing," "Health," and "Regional Development." The South is highest in "Education" and "All Other," and the West was highest in "Transportation,"

Table III-1: Ratio of Estimated Federal Expenditures to Estimated Federal Revenues, Selected Fiscal Years, 1952-1976

Region and Largest State*	1974-1976	1965-1967	1952
United States	1.00	1.00	1.00
New England	1.01	.95	.78
Massachusetts	1.06	.90	.74
Mideast	1.02	.75	.75
New York	.95	.62	.61
Great Lakes	.75	.64	.87
Illinois	.71	.59	.69
Plains	.97	1.15	1.20
Missouri	1.10	1.09	1.01
Southeast	1.11	1.36	1.51
Florida	.94	1.15	.82
Southwest	1.03	1.37	1.46
Texas	.94	1.35	1.34
Rocky Mountain	1.09	1.34	1.20
Colorado	1.04	1.33	.98
Far West	1.13	1.27	1.12
California	1.15	1.32	1.06

Note: The ratios are derived by dividing for each state or region its estimated percentage of all allocated Federal government expenditures by the estimated percentage of Federal government revenues contributed by its residents.

Table III-2: Regional Index of Numbers for Estimated Federal Expenditures Per Capita Allocated by Residence of Recipient or Location of Activity: Selected Fiscal Years, 1952-1976[7]

Region	1974-76	1969-71	1965-67	1959-61	1952
50 States & D.C.	100.0	100.0	100.0	100.0	100.0
New England	108.5	112.2	110.8	123.6	103
Mideast	110.6	106.0	91.4	103.9	104
Great Lakes	78.5	73.1	69.9	78.5	96
Plains	90.8	89.7	103.4	88.3	99
Southeast	97.1	96.1	98.5	87.5	83
Southwest	97.8	111.4	111.6	103.5	107
Rocky Mountain	102.3	103.7	117.0	112.8	99
Far West	119.8	127.8	140.9	136.3	131
Alaska	236.0	279.8	435.4	576.3	
Hawaii	165.7	159.1	201.3	238.3	

Table III-3: Regional Index Numbers for Estimated Federal Revenues Per Capita from Residents of Each Region: Selected Fiscal Years, 1952-1976[7]

Region	1974-76	1969-71	1965-67	1959-61	1952
50 States & D.C.	100.0	100.0	100.0	100.0	100.0
New England	107.1	117.9	117.2	115.8	133
Mideast	108.9	118.4	121.2	125.4	138
Great Lakes	104.8	107.0	108.9	105.9	110
Plains	93.7	88.9	90.1	88.1	82
Southeast	87.2	77.7	72.6	67.9	55
Southwest	94.7	84.6	81.4	83.2	73
Rocky Mountain	93.7	84.0	87.1	90.9	83
Far West	106.0	108.2	111.0	117.7	117
Alaska	131.2	104.4	93.3	76.8	
Hawaii	106.8	102.6	90.1	86.6	

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Table III-4: Percentages of Major Categories of Federal Government Revenues Estimated by Region of Origin: Fiscal Years 1974-76[9] (The sum of regional percentages in each column is 100.0%)

Region	Total of allocated revenues	Individual income tax	Employment taxes and insurance contributions	Corporate income tax	Excise taxes and customs
New England	6.1%	6.2%	5.7%	6.9%	5.8%
Mideast	21.9	22.8	20.7	23.2	19.0
Great Lakes	20.2	21.3	19.7	18.7	19.5
Plains	7.4	7.2	7.8	6.8	7.5
Southeast	19.5	18.3	20.5	19.8	21.5
Southwest	8.1	7.6	8.5	7.9	9.2
Rocky Mountain	2.8	2.4	2.7	2.4	2.8
Far West	13.7	13.5	13.7	13.9	14.0
Alaska, Hawaii	.7	.7	.7	.5	.7
Amount allocated (billions)	$840.8	$371.8	$252.0	$120.2	$61.4

Table III-5: Regional Percentages of Major Categories of Federal Government Expenditures by Residence of Recipient or Location of Activity: Fiscal Years 1974-76[9] (The sum or regional percentages in each column is 100.0%)

Region	Total of allocated revenues	Total of allocated expenditures	Payments to Personal Incomes[10]			Military outlays except personnel	Aid to state & local government[11]
			Total	Pay of personnel, civilian & military	All Other		
New England	6.1	6.2%	5.6%	3.8%	6.2%	10.8%	6.3%
Mideast	21.9	22.2	22.1	22.0	22.1	21.0	23.6
Great Lakes	20.2	15.1	15.7	9.8	17.9	9.6	16.4
Plains	7.4	7.1	7.1	6.0	7.6	7.2	7.2
Southeast	19.5	21.7	22.8	25.6	21.7	16.2	21.3
Southwest,	8.1	8.4	8.5	10.6	7.7	8.9	7.6
Rocky Mountain	2.5	2.7	2.8	3.9	2.3	1.8	3.0
Far West	13.7	15.5	14.4	15.8	13.9	23.2	13.5
Alaska, Hawaii	.7	1.1	1.0	2.4	.6	1.3	1.1
Amount allocated (billions), 1974-76		$969.9	$672.3	$187.7	$484.6	$103.4	$148.6[11]

Table III-6: Distribution of Grants Per Capita ($) by Four Census Regions, 1970 and 1975

Type of Grant	Date	Northeast	Midwest	South	West	All State Average
Total	1970	117	89*	123	151	120
	1975	260**	198*	220	246	233
Public Welfare	1970	54.71	34.60*	48.65	66.63**	49.90
	1975	116.18**	76.85	75.35*	85.91	87.99
Education	1970	14.49	12.60*	23.62**	18.78	17.90
	1975	21.66	17.93*	23.53**	23.22	22.10
Highway and Transportation	1970	18.21*	21.02	20.52	34.58**	22.62
	1975	23.49	23.37*	26.94	34.77**	26.64
Regional Development	1970	16.35**	8.36*	12.82	9.96	12.16
	1975	19.79**	11.66	13.89	10.50*	14.42
General Revenue Sharing	1975	32.00**	26.67*	27.86	29.34	28.76
Manpower and Employment Security Administration	1970	5.76	4.41	4.27*	6.33**	5.16
	1975	17.95	15.36*	16.55	25.78**	18.66
Health and Hospital	1970	5.27	5.09*	5.97**	5.51	5.64
	1975	21.42**	16.36*	18.70	18.62	18.96
Natural Resources	1970	.48*	.94	1.44	3.24**	1.37
	1975	1.18*	1.57	2.25	4.93**	2.31
All Other	1970	1.74*	1.98	5.44	5.49**	4.77
	1975	6.91*	7.82	14.61**	12.69	13.47

* Lowest region.
** Highest region.

Table III-7: Distribution of Total Grants Net of Public Welfare Grants by Region, 1970 and 1975[17]

Federal Aid		Northeast	Midwest	South	West	All State Average
Per Capita $	1970	$ 62.31	$ 54.40	$ 74.08	$ 83.90	$ 69.82
	1975	$144.18	$120.65	$144.85	$159.81	$135.32

Sources: Academy for Contemporary Problems staff computations based on 1970 and 1975 editions of the Department of the Treasury, Federal Aid to States, and the 1969-70 and 1974-75 editions of the U.S. Bureau of the Census, Governmental Finances.

Table III-8:[19] Historical Trend of Federal Grant In-Aid Outlays (millions of dollars)[20]

Year	Grants[21]	Composition of Grants-in-Aid: Grants for Payments to individuals	Composition of Grants-in-Aid: Other Grants	Federal Grants as a Percentage of: Federal Outlays: Total	Federal Grants as a Percentage of: Federal Outlays: Domestic	Federal Grants as a Percentage of: State & Local Expenditures
1950	$ 2,253	$ 1,428	$ 832	5.3	8.8	10.4
1960	7,020	2,735	4,285	4.7	12.1	10.1
1970	24,018	8,867	15,151	12.2	21.1	19.4
1973	41,832	13,104	28,728	17.0	24.8	24.3
1976	59,037	19,511	39,526	16.1	21.7	24.7
1978 est.	81,682	25,816	55,866	17.8	24.1	28.5

"Manpower," and "Natural Resources." The Midwest lags behind the other three regions in terms of overall per capita grants and is also lowest in "Education," "Manpower," "Health," "Transportation," and "General Revenue Sharing." Significantly, the study shows that overall funding variations between states and cities within regions are often more considerable than variations between regions, especially when public welfare is excluded from the figures.

Direct Federal Grants to Communities

Federal grant-in-aid as a percentage of the state and local budgets has grown considerably from 1970 to 1978 (see Table III-8). Further, Federal aid as a percentage of local revenue, has also grown remarkably in recent years.[18] Targeted Federal aid or major multi-purpose aid (such as General Revenue Sharing) now plays a major funding role for local social welfare programs, community development, mass transportation, and even common functions such as police, sanitation, and parks.

To give a more detailed sense of the extent of Federal funding, particularly in UDAG-ineligible cities, it is useful to focus on three direct grant programs: Community Development Block Grants (CDBG), General Revenue Sharing, and Comprehensive Employment and Training Act (CETA) funding.[22] These are well-funded, multi-year, and multi-purpose programs that offer substantial funding to large cities and allow flexibility in devising strategies for physical, economic, and employment development. Compared to these programs, let alone the full range of grant-in-aid and income transfer programs, UDAG funding represents only a small percentage of the Federal money available to large communities for dealing with physical and economic distress. Table III-9 provides data on the three Federal programs in relation to the ten largest communities presently ineligible for UDAG.[23]

Table III-9: FY 78 Allocations of GRS, CETA, CDBG to the Ten Largest UDAG-Ineligible Cities

Jurisdiction	1975 Population (thousands)	Funding in Millions: GRS[24]	CETA[25]	CDBG[26]
Dallas	812.8	15.1	17.7	14.9
Honolulu	705.4	16.5	30.8	11.5
Houston	1326.8	21.3	33.7	24.2
Indianapolis	716.9	14.3	32.5	10.7
Jacksonville	535.0	8.5	17.0	10.4
Memphis	661.3	11.7	17.0	15.3
Nashville-Davidson	423.4	9.0	6.9[27]	8.4
Phoenix	664.7	9.4	41.9	9.9
San Diego	774.0	9.0	41.8	10.1
San Jose	555.7	6.1	18.2[27]	6.3

As significant as the magnitude of Federal funding to ineligible communities is the trend of such funding. Federal direct aid to UDAG-ineligible localities has increased greatly from 1970 to present, exceeding inflation and local tax effort. Even HUD Community Development assistance, which was already substantial in 1970 (before General Revenue Sharing had even begun), has grown impressively for many of the large UDAG-ineligible communities:

Table III-10: Percentage Growth of HUD Community Development Funding, 1970-1978[28]

Jurisdiction	
Dallas	454%[29]
Honolulu	26
Houston	214
Indianapolis	2[29]
Jacksonville	101
Memphis	154
Nashville	8[29]
Phoenix	659
San Diego	55
San Jose	27
Average	168%[30]
Median	78%[30]

For a larger sample of cities and all forms of direct Federal aid, Table III-11 shows the growth of Federal aid relative to community income.

The data indicate that from 1970 to 1976 the percentage growth of Federal aid to less distressed communities, when compared to community income, far outpaced growth in such aid to more distressed communities.[33]

As recently as FY 76, the disparity in aid per $1000 of community income to different categories of cities and urban counties was not as great as might be imagined, ranging from $23 for the neediest quintile to $15 for the least needy quintile in 1976. (Since income tends to be higher in less distressed communities, the per capita disparity was even less.)

In 1977 and 1978 the disparities in direct Federal funding tilted in favor of the more distressed communities. The primary

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Table III-11: Direct Federal Aid Per $1000 Community Income by Quintiles of Composite Economic Indicator[11]

Quintile of Hardship		1970	1971	1972	1973	1974	1975	1976	Percentage Increase 1970-1976[12]
1	Fed. Aid	5.333	10.520	12.695	16.674	17.269	19.171	23.068	333
2	Fed. Aid	7.218	7.042	11.322	15.609	17.216	16.206	21.260	195
3	Fed. Aid	2.919	6.053	8.265	12.119	16.152	14.435	15.553	435
4	Fed. Aid	1.614	3.376	6.097	7.567	9.776	10.017	12.203	613
5	Fed. Aid	2.285	3.480	5.947	9.627	10.993	11.057	14.170	521

reason for the tilt was the funding of two special programs—Local Public Works and Anti-Recession Fiscal Assistance. Both programs were targeted to need and both were in part premised on the problems distressed communities faced as a result of cyclical changes in the economy. These programs were really emergency relief rather than long-term development programs. They have now ended, and as a result some of the more distressed communities have had to make substantial cutbacks in services and capital development programs. Furthermore, some of these communities may face large tax increases. A survey of large city need had concluded that declining communities are in far worse condition than their growth counterparts, and their relative condition has probably worsened in recent years.[14] Hence, the modest per capita advantage that such cities have had with respect to receipt of direct Federal aid seems equitable.

Conclusions

It is often difficult to determine that exact beneficiaries of federal assistance or to measure the relative flow of aid to different areas of the country. However, several general trends are visible. It is clear that regions of the country which are now developing rapidly have historically reflected favorable ratios of expenditures received to revenues paid. Furthermore, communities not eligible for UDAG have recorded a significant percentage increase in federal aid since 1970. Finally, the variations internal to regions and states seem more significant than variations between regions and states.

Footnotes

1. Ann Markusen and Jerry Fastrup, "*The Regional War for Federal Aid,*" in *The Public Interest*, Fall 1978. The University of Michigan is performing a comprehensive "cleanup" and analysis of Federal outlay data.

2. Using CSA Federal outlay data, the per capita amounts in FY '78 for Social Security retirement and survival income transfers were $489 for St. Louis, $417 for Detroit, and $716 for Cleveland, as compared to $232 for Houston, $252 for San Jose or even $350 for Phoenix. Since 1975 population estimates were used to get per capita amounts, the per capita disparity for older and newer areas is understated by these figures.

3. In these tables, however, tax subsidies are not included as foregone revenues or as indirect expenditures.

4. The original ACIR table had the expenditure revenue ratio for all of the states, not just the largest in each region.

5. If the District of Columbia, a special case, were excluded from Tables III-1 to III-3 then the Mid-Atlantic region would fare considerably worse on the expenditure indices and all other regions would fare somewhat better.

6. The ACIR Regions contain the following states:
New England: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont;
Mideast: Delaware, District of Columbia, Maryland, New Jersey, New York, Pennsylvania;
Great Lakes: Illinois, Indiana, Michigan, Ohio, Wisconsin;
Plains: Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota;
Southeast: Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, West Virginia;
Southwest: Arizona, New Mexico, Oklahoma, Texas;
Rocky Mountain: Colorado, Idaho, Montana, Utah, Wyoming;
Far West: California, Nevada, Oregon, Washington, Alaska, Hawaii.
Source: I. M. Labowitz, "*Federal Expenditures and Revenues in Regions and States*" in *Intergovernmental Perspective* ACIR, Fall 1978.

7. For a given period and region, the ratio of the expenditure index to the revenue index gives the ratios in the preceding table. (Table III-1). The regional definitions are the same as in Table III-1. For instance, for 1974-76, the 1.01 ratio for New England in Table III-1 is the ratio of 108.5 (Table III-2) to 107.1 (Table III-3).
Source: Advisory Commission on Intergovernmental Relations.
Note: As territories, Alaska and Hawaii were omitted from 1952 estimates.

8. Source: I. M. Labowitz, "*Federal Expenditures and Revenues in Regions and States.*"

9. Source: Advisory Commission on Intergovernmental Relations. See the text for a critical discussion of these expenditure categories.

10. Percentages are based on payments to personal incomes in three calendar years, 1974-76.

11. This includes aid that is transferred to individuals.

12. See Table III-5, footnote 11, and Table III-6 for the broad definition of Federal aid. Jurisdiction-wide grants (exclusive of welfare, medicaid, etc.) are only a fraction of local and state aid (as defined by ACIR).

13. With the exclusion of the District of Columbia from the previous analysis, the comparative advantage of the South and West in these categories would rise somewhat and the average showing of the "Mideast" would fall considerably.

14. Charles Vehorn, *The Regional Distribution of Federal Grants in Aid*, Academy for Contemporary Problems, November 1977. The ACIR and Academy regional breakdowns are not completely comparable; ACIR uses 8 subregions as contrasted to 4 Census regions of the Academy. However, the conclusions are reasonably similar concerning regional and state fund flow.

15. This report correctly points out that different areas of the country will reflect relatively different magnitudes of federal aid depending on the indices used.

16. Because welfare funds require a match from local sources, high welfare aid also indicates a high level of local tax effort. Hence, the distribution of welfare funds may not be an accurate indicator of the true impact of Federal aid on local fiscal burden. Revenue sharing also depends, in part, upon local and state tax effort.

17. Charles Vehorn, *The Regional Distribution of Federal Grant-in-Aid.*

18. Just in term of direct Federal transfers, exclusive of net pass-throughs from states or counties, the contribution of direct Federal grants to own source revenues for cities above 300,000 persons more than doubled from FY 71 to FY 77 (from 11.7% to 26.7%). Source: *City Government Finances in 1976-1977; City Government Finances 1970-1971.* Since many funds credited as state intergovernmental transfers are Federally supplied, the true Federal contribution to cities is considerably greater.

19. Adapted from Charles Vehorn, *The Regional Distribution of Federal Grants-in-Aid.*

20. Dollars are not corrected for inflation.

21. In the Academy's analysis, the yearly total Federal outlays to state and local governments is a much smaller figure than the 1974-76 total expenditure figure used in the ACIR analysis (Table III-5).

22. Two substantial programs developed to counter the 1975-76 fiscal crisis the Anti-Recession Financial Assistance Fund and the Local Public Works Program are included in certain aggregate tables. However, both of these programs were terminated by the end of Fiscal Year 1978.

23. In comparison, the average UDAG grant to large cities and urban counties was $3 million in FY 78.

24. General Revenue Sharing (Department of Treasury). These figures do not include pass-throughs from the county, which also receive GRS entitlements.

25. Comprehensive Employment Training Act (Department of Labor). Information adapted from a Department of Treasury study on fiscal distress, in which FY 78 per capita amounts were computed.

26. Community Development Block Grants (Department of Housing and Urban Development). *CDBG Directory of Allocations* for FY 78 was the source of this information.

27. For Nashville-Davidson and San Jose, these figures include only Titles 2 and 6 and therefore understate the total CETA grant for FY 78.

28. The 1978 Community Development Block Grant is compared to the "hold harmless" amount (the average of HUD funding during 1967-72 for the categorical programs replaced by Block Grants). Table III-9 on the previous page gives the 1978 CDBG amount. The 1970 amounts were usually more than $5 million. Thus, the 1970 base for comparison was not negligible.

29. Some cities such as Nashville and Indianapolis which participated heavily in HUD programs a decade ago have grown little or not at all in HUD Community Development funding. However, many more distressed cities have been net losers in the switch from categorical to block grant aid.

30. For 16 UDAG-eligible cities in the same 1975 population range (423,000-1,327,000) the average growth was 42% and the median 3%. Only the five largest UDAG eligible communities (Detroit, Philadelphia, Los Angeles, Chicago, and New York), which have generally benefited from the switchover to formula allocation, had an average percentage growth, 142%, similar to that of the 10 largest non-eligible UDAG cities.

31. Adapted from Richard Nathan. See footnotes to Table II-5, Chapter 2 for an explanation of categories. Essentially, categories one to three contain UDAG-eligible cities and category five contains ineligible cities (with category four a mixture). In the original form, Nathan showed aid, taxes, and also operating expenditures in one table.

32. Percentage increase $= 100 \cdot \frac{1976 - 1970}{1970}$

33. Given the faster increase of per capita income in less distressed communities their per capita Federal aid rose even more relative to that of the hardship cities.

34. See Richard Nathan and James Fossett, *"Urban Conditions — The Future of the Federal Role."* Brookings Institution, November, 1978.

35. As this chapter has suggested, such cities might still suffer a considerable disadvantage in terms of indirect Federal outlays and incentives. However, Carter's Urban Policy initiatives (e.g., labor surplus and procurement) are trying to redress these indirect imbalances.

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Chapter IV
Own-Source Expenditures in Pockets of Poverty

Chapter II suggests that UDAG-eligible communities often face more internal fiscal burdens than ineligible communities. Chapter III indicates that direct and indirect Federal outlays to ineligible cities are substantial. Both of these conclusions imply that eligible communities, relative to their non-eligible counterparts, may be more in need of UDAG funds to alleviate physical and economic problems. However, those in favor of opening up UDAG eligibility to cities and urban counties with relatively large pockets of poverty have asserted that greater fiscal strength does not necessarily provide greater flexibility to respond to problems of poverty and incipient decline. This chapter reviews the extent to which local resources have been invested in the distressed areas of UDAG-ineligible communities. It also, where feasible, draws comparisons to distressed communities.

The discussion will center on the following questions:

- How can own-source expenditures in pockets of poverty be measured, and what problems are involved in such measurement?
- Is there evidence indicating how much distressed communities and non-distressed communities spend on social services such as welfare and hospitals?
- What is the evidence regarding local own-source expenditures in pockets of poverty by non-distressed communities?

Methodological Issues

Once again, problems of data interpretation make own-source expenditure questions difficult to answer. In many cases, benefits from local expenditures are not easily assigned. For example, small business loans may benefit an entire jurisdiction, distressed and non-distressed areas alike. In general, economic development activities can have multiple beneficiaries. Increased fire protection may benefit a distressed area even if the new fire station is located outside the boundaries of a specific area. Similarly, a flood channel built on the other side of the city may alleviate flood problems in a distressed area. On the other hand, not all spending activities in a low income tract benefit the present or future needy in that tract. In the past, some urban renewal activities provided classic instances of this split between target area expenditure and actual beneficiaries.

Measurement problems also result from the incompleteness or age of available data. Most jurisdictions do not keep detailed records of how much local money has gone to particular areas. Moreover, available data that does not exist is frequently dated. Further, local expenditure patterns appear subject to frequent changes.

Another problem encountered in analyzing local efforts relates to the variations in functional roles and revenue/expenditures responsibilities among and between communities. For some jurisdictions education, hospitals, welfare, and community renewal are handled by the city government while in others, county or special district levels of government handle these services. If such services are inadequate for needy persons or areas, the city might not bear prime responsibility.[1]

Federal aid complicates measurement problems. As Chapter III pointed out, Federal funding often supports a substantial

share of local government's operating and capital expenses in non-distressed as well as distressed communities. From aggregate accounts, it is often impossible to determine what proportion of the budget for a given service or project comes from local as opposed to Federal sources. Furthermore, Federal subsidies of common municipal services have allowed communities to transfer local revenues previously used for some services into different service areas. Hence an apparent increase in local spending on social services may merely represent the substitution of Federal funds for local funds in other areas of the budget.

Furthermore, it is necessary to acknowledge legitimate public opportunity costing in any evaluation of own source revenue expenditures. Because of fiscal or other management-related reasons, a community may choose to allocate resources in different ways at different times. For example, it might choose to invest in capital maintenance to save structures that would otherwise deteriorate, or to commit special services to secure annexation. While such action may be appropriate given overall community needs, they also may preclude substantial investment in the distressed areas of the jurisdiction at any one period of time. The issue becomes then the choice of an appropriate time period to measure expenditures.

An Overview–Distress/Non-Distress

Subsequent pages in this chapter, combined with analyses reported earlier on relative fiscal burdens, support a preliminary hypothesis that large UDAG-eligible communities, as a class, have shown and are now showing a larger commitment of local resources to their respective pockets than non-distressed communities. Further, it is reasonable to assume, based on analyses in this and previous chapters, that non-distressed jurisdictions, again as a class, have had (and will continue to have) relatively more financial flexibility to assist their pockets than distressed jurisdictions. But because no comparable studies exist of a broad national sample of local expenditures and revenue practices within subareas of a jurisdiction, and because of the methodological problems recorded above, clear-cut normative or policy judgements about own source expenditures in non-distressed communities are difficult to make. Most communities, distressed on non-distressed, seem to attempt to provide a similar package of core services to most residential areas in their respective jurisdictions. That is, evidence of gross discrimination between neighborhoods (such as that uncovered in Shaw, Mississippi) is probably rare.[2] Unfortunately, available data and evaluation techniques do not permit easy analysis of the motives, efficiency or equity involved in many local public decisions concerning neighborhood or inter-neighborhood services.[3]

Evaluations of service delivery between and among neighborhoods often reflect the frame of reference of the analyst. Those who believe that distressed areas require more than equal services will rank a city low on equity criteria, even if rough comparability between neighborhoods is achieved. Those who believe that efficiency is a primary objective of expenditures may fault local criteria resulting in equalization of services or principles favoring "pockets" because such allocations ostensibly fail to maximize the use of scarce local resources.

Social Service Expenditures

One reasonable measure of own-source spending on pocket of poverty areas is the extent to which different communities provide "non-common" services including hospitals, other health care, housing and local public housing.[4] In this context, among the largest jurisdictions, UDAG-eligible communities have tended to provide a higher number of social services and to spend more on them. Table IV-1 provides a recent breakdown (FY 77) of social service expenditures within the largest UDAG-eligible and UDAG-ineligible communities.[5] For each service, the chart indicates the amount of state revenue allocated to the community and the amount of own-source expenditure (primarily state and local revenue sources). Where the known expenditure is significantly greater than the state revenue for a function, it is probable that the community was expending its own resources for that function.[6] Moreover, it should be noted that some of the state monies expended on the locality were initially paid for by local taxpayers.[7]

For a sample of the largest communities, the data indicate that for three select categories of services, UDAG-eligible communities usually spend substantially more of their own funds relative to population than do non-eligible communities.

Local Matching in the Model Cities Program

The Model Cities Program, which lasted from 1967 to 1972, affords some inferential evidence concerning the response of distressed or non-distressed cities to "pockets of poverty."

Table IV-1: Non-Common Social Service Expenditures by Municipal Governments

City or County	Population In (1975)	$Millions for Hospitals (1976-77) State Revenues	$Millions for Hospitals (1976-77) Own Expenditures Hospitals	$Millions for Welfare (1976-77) State Revenues	$Millions for Welfare (1976-77) Own Expenditures
UDAG-Eligible					
Atlanta	436	–	–	–	5.3
Baltimore c[a]	851	20.1	31.8	137.2	159.8
Boston	636	3.5	70.8	.7	4.1
Chicago	3,099	16.7	1.8	10.6	23.7
Cleveland	638	–	–	–	1.8
Denver c	484	4.3	25.6	47.7	56.3
Detroit	1,335	23.3	51.2	–	.7
Los Angeles	2,727	–	1.9	–	–
Milwaukee	665	.4	1.2	–	–
New Orleans	559	2.2	–	1.8	3.1
Philadelphia c	1,875	45.5	34.2	28.5	49.8
Saint Louis c	525	13.4	47.0	.6	3.6
San Antonio	973	.6	.8	–	.9
San Francisco c	664	15.2	65.1	114.7	144.1
New York c	7,481	129.3	689.9	3,141.1	3,529.9

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Table IV-1: Non-Common Social Service Expenditures by Municipal Governments (Continued)

UDAG-Ineligible					
Dallas	812	.2	-	-	-
Houston	1,326	3.0	-	-	-
Indianapolis c	715	.9	41.1	28.5	39.6
Jacksonville c	535	3.8	24.5	-	4.1
Nashville-Davidson c	423	2.4	16.5	-	3.4
Memphis	661	-	-	-	.7
Phoenix	664	-	-	-	.3
San Diego	774	-	-	-	.02
San Jose	555	-	-	-	-

Model Cities not only emphasized local participation by low-income citizens in allocating funds to discrete distressed areas, but in addition the Model Cities criteria required matching funds from the participating city. To some degree, therefore, the decision to participate in the Model Cities Program provides some evidence of a municipality's early commitment to the pockets of poverty concept.

Of the 40 UDAG-eligible communities over 250,000 population (1975), only six of the "smaller" communities did not participate in Model Cities. None of these except for El Paso might be called severely distressed. However, of eighteen ineligible communities, seven did not participate, and these included some of the largest jurisdictions such as Dallas, Memphis, Jacksonville, and Phoenix. While the qualification discussed earlier limits the significance of this data, it does not imply a difference between UDAG-eligible and UDAG-ineligible communities in terms of historical commitments for programs targeted to concentrations of the needy.[9]

Profiles of Own-Source Spending[10]

Precise data on own-source expenditures are difficult to secure for most cities and urban counties. However, the perception of local officials, scholars, and representatives of the poor provide some insight into local allocation strategies in some representative non-eligible communities. The concluding paragraphs of this section summarize briefly such perceptions.

Houston has major areas of social, economic and physical distress within the eastern section of the city, particularly in those areas lying between the Central Business district and the outlying fringe areas. To date a coherent local strategy for alleviating distress in these areas has not yet emerged. City officials have instead focused on growth needs, in part related to annexation. Capital and social service expenditures in eastern Houston from our own source revenues have been and are relatively small.

Although eastern Houston's infrastructure is recognized as being the worst in the city, [11] a recent analysis of the city's 1976-78 Capital Improvement Program (CIP) Plan did not evidence a focusing of capital investments within this area.[12] About 35 percent of the $1,017,653,290 budgeted for this purpose during the period was planned for use in low/moderate areas of the city. However, the concentration of over 88 percent of these resources in the CBD and several contiguous census tracts appears to have limited the impact of planned improvements in lower income residential areas. Low and moderate-income areas containing 85 percent of the distressed area's 1970 population and approximately 26 percent of the city's population were budgeted four percent of CIP investments between 1976-1978. Clearly, Houston has preferred to use only Federal funds for community development purposes in distressed areas.

The city of **Tulsa** has designated the northern section of the city as its "distressed area." Federal programs requiring local targeting (CDBG, Model Cities, CETA Title II and EDA Title IV) provided the stimulus for identifying this area, and Federal dollars have provided most of the expenditures in the area. From 1972 to 1976 for example 70.4 percent of the $86 million expended in Northern Tulsa were Federal dollars. The locally generated revenues budgeted for the area during 1972-76 were primarily from bonds.[13] Only 3.4 percent of the $62 million available to Tulsa under its Capital Improvement Fund and only 0.02 percent of the more than $80 million in general fund monies used to finance various physical development projects were spent in Northern Tulsa between 1972 and 1976. Review of the city's latest (1979-1980) capital improvement plan, extending over an eighteen-month period, indicates that the proposed capital improvements projects located in CDBG target areas (which cover most of northern Tulsa) are being funded primarily with CDBG funds. At the present time, funds have not been committed for one quarter of the capital projects in CDBG areas, although these projects ranked much higher on a city planning index than prospectively funded projects located in other areas.

The city and county of **Jacksonville** seems to be spending little of its own funds for development and/or services in many areas, relying instead on private funding. This strategy according to local observers works to the disadvantage of the old core city, given its non-growth status. The community's proposed UDAG project focuses on downtown commercial development.

In **Dallas**, areas of distress have not been tightly defined. Dallas has designated as "distressed" those areas of the city that are eligible for treatment under CDBG. These areas include approximately 270,000 of Dallas' 850,000 people. The city has generally not matched CDBG funds with large amounts of its own monies. Own source revenues have not been used strategically in sizeable amounts for neighborhood revitalization or social services. Though evidence is not precise, the city has apparently distributed bond revenues for neighborhood capital improvements relatively equally across the city. Locally provided common services also appear to be allocated equally across most areas, but non-common city services are rare (as shown in Table 1).[14]

Officials of **Memphis** indicate that their distressed area includes the Central Business District and the area just south of it. Recently, parts of this area were designated by EDA as a Special Impact Area (SIA), qualifying it for this agency's Federally sponsored economic development program.[15] Some officials in the city claim that, with the exception of the Central Business District, there is an unofficial policy in Memphis of not using locally generated revenues in those areas which qualify for assistance under targeted Federal programs. This view is seconded by representatives of civil rights and other community-based organizations within the city.

Memphis has certainly committed an impressive amount of its own source revenues to revitalizing the CBD. A ten-block mall connecting the city's Civic Center Complex and the shopping district has been completed at a cost of $7 million. Locally generated revenues have also been used to construct a $30 million convention center and a $3 million city office complex. In an effort to encourage downtown redevelopment, the city of Memphis and Shelby County have further committed $10 million of their own source revenues for use in the CBD over the next five years. These funds will be used to provide needed public improvements for business development and or redevelopment sites. Finally, a $30 million tourist center called Volunteer Park is being developed on Mud Island, which lies in the Mississippi River just offshore downtown Memphis. Tax supported general obligation bonds are being used to finance this project.

Newport News has identified the Central Business District and neighborhoods to its south and southeast as the city's "distressed areas."[16] City officials acknowledge the absence of an overall strategy for correcting existing neighborhood deficiencies. At the present time, Federal funds are being used to finance most of the improvements that have been, or will be, undertaken in the area. (For example, 95 percent of the $8.8 million in CDBG funds received by the city between 1975-1978 were spent in the "distressed area." All Federal housing subsidies and EPA water treatment grants from recent years, totalling $33 million, have been used in this area as well.) Local officials claim that they are unable to determine to what extent the city's own source revenues have been spent in declining areas, since such funds are not allocated on a geographical basis. (The city, however, claims recently to have earmarked 21.3 percent of its 1979 tax-support general obligation bonds for use in the distressed area).

The designated "distressed area" in **Indianapolis/Marion County** includes approximately 90 percent of Indianapolis prior to the city county consolidation earlier this decade.[17] Local officials of Indianapolis Marion County claim that almost all of the Federal aid that the jurisdiction receives is being spent in the distressed area. They were unable however to identify how much of the city's own-source revenues were being spent in this area since there is no spatial basis for allocating such revenues.

In **San Jose,** the Central Business District and census tracts contiguous to it, containing a total population of about 74,000, have been designated a distressed area. Revenues derived from targeted Federal programs are being spent in this area. A commitment by the city to use 60 percent of its 1978-80 CDBG funds in the Central Business District suggests, however, that although San Jose has shown sustained interest in and commitment to revitalizing distressed areas, downtown development is presently the central focus of Federal aid. Local officials indicate that they are unable to identify precisely how much of the city's own source revenues have been spent in the distressed areas.

In contrast to the communities discussed above, **San Antonio** is a city presently eligible for UDAG. The jurisdiction has spent most of its Federally derived revenues in lower income areas of the city. For instance, almost all of the $51 million in CDBG funds received by the city between 1975-1977 were spent in CDBG target areas. Similarly, although EPA funds are not programmed to fight poverty, Public Works officials said that none of the more affluent areas have had new sewer systems provided with EPA funds.

As with the other communities, it is difficult to determine specifically how much of San Antonio's own-source revenue is spent on its pockets of poverty. However, the city's efforts do appear significant. For example, 28 percent of the city's $223 million operating budget was used in support of economic development, welfare and social services, and health servies, all expenditure categories which appear to local observers to benefit the poor disproportionately. Moreover, General Revenue Funds, which many communities use as all-purpose funds without any targeting, have recently bypassed affluent tracts in San Antonio. Though quantitative data regarding the distribution of the city's capital funds are unavailable, several elected and non-elected city officials stated that increasingly the capital budget has reflected larger allocations to poor areas occupied for the poor.

Conclusion

Several tough analytical problems prevent a definitive reading of the extent to which UDAG-eligible and UDAG-ineligible communities allocate locally derived resources to pockets of poverty. Despite difficulties however several trends can be discerned from available data and secondary studies. Thus at the present time it appears that UDAG-eligible jurisdictions allocate relatively larger amounts of their own-source revenue to their distressed neighborhoods than non-distressed jurisdictions. Questions related to the use and fungibility of Federal aid and to the basic effect and impact of local strategies for the distribution of total available resources remain to be examined in future months.

Footnotes

1. In addition, some states cap local revenue and expenditures and control the relationship between the two.

2. See Robert Lineberry, *Equality and Urban Policy: The Distribution of Municipal Public Services*, Sage Publications, 1977.

3. Thomas Muller, *Growing and Declining Urban Areas: A Fiscal Comparison.*

4. Thomas Muller suggests this frame of reference in *Growing and Declining Urban Areas: A Fiscal Comparison.* In 1973 the identified declining cities in the Muller report spent much more on non-common services than growing cities.

5. The methodological problem of differentiating municipal and county responsibilities should be kept in mind here, since low levels of social service expenditure in some cities may, in fact, indicate that the respective counties handle those services. In Table IV-1, city-counties might be compared to each other (both UDAG-eligible and ineligible). To standardize own-source expenditures, the population level of the city should also be kept in mind.

6. Generally, Federal welfare monies first go to the state before being passed to counties and cities. Thus, in most areas, they would appear as state revenues in the City Government finance records.

7. The tax effort tables in the last chapter (Tables III-6 III-7) indeed showed how the large UDAG-eligible communities had, on average, a much higher burden of local and state taxes than the large ineligible communities.

8. All data is taken from *City Government Finances in 1976-77* (published 1979). The "own expenditure" column indicates local spending "is estimated as" the own expenditure sum minus the state revenue sum (subtract the first column from the second for each category). This assumes that all Federal aid is passed through the state. The letter "c" signifies cities that are coterminous with counties. Such cities tend to have a greater number of non-common functions. Only money spent on own hospital (presumably centered on needy) is counted

under hospital expenditures. Charges received for hospital services are not counted as an off-setting revenue. Since only broad inferences are made from this table, data are presented in absolute rather than per capita terms. However, a comparison of communities of similar size (population 1975) supports the inferences.

9. Although some of today's severely distressed communities might not have been as distressed in 1970—New York City, for instance—heavy participants such as Newark, Atlanta, Baltimore, St. Louis, Norfolk, etc. were very needy even then. Conversely, many of the UDAG-ineligible communities had low or moderate unemployment and poverty rates even in 1970. Model Cities applications, like Actual Model Cities participants, reflect more interest from UDAG-eligible communities than from ineligible communities.

10. The UDAG-ineligible communities investigated in this section are Houston, Jacksonville, Tulsa, Dallas, Memphis, Newport News, Indianapolis, and San Jose. San Antonio, which is presently eligible for UDAG, is included for comparison. Detailed field visits and reports support the summary account in the text.

11. Six percent of the streets in lower-income areas are unpaved, 12 percent are in need of resurfacing, and 69 percent either lack drainage or have only open ditches.

12. John Hall for the L.B.J. School of Public Administration, University of Texas. Another John Hall (a Brookings Associate and Urban Affairs Specialist at the University of Arizona) has written insightful monographs about Federal funding and community development programs in Phoenix.

13. However, some of the projects budgeted under 1972 revenue bonds remain to be undertaken and others have been postponed or cancelled, so that actual bond expenditures have not matched the city's initial commitment.

14. Some local community groups feel that local services in their areas are not equal to those provided in other areas, but hard evidence is difficult to secure. Recent commitments to revitalize the downtown and related areas have apparently skewed development priorities.

15. In 1975, 84,927 persons lived in the SIA, 90 percent of whom were Black. 42.4 percent of the residents in 1970 had incomes below poverty. The designation of an SIA required elaborate negotiations with EDA, which tightened the original low income area proposed by Memphis.

16. The 47,000 persons currently residing in the area represent 35.4 percent of the city's population. Also, 30 percent of the area's residents are minorities and 60 percent have lower incomes.

17. Although the current population of the area is unknown, there are indications that out-migration is occurring. For example, 8,495 of the area's housing units were demolished between 1970-1978. During the same period, public school enrollment of the area decreased by 30,000.

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Chapter V
Pockets of Poverty: Principles and Options

As indicated in earlier chapters, available data do not provide precise answers to questions concerning the fiscal capacity of distressed and non-distressed communities or their respective commitments to pockets of poverty. However, a strong case can be made, based on the analysis presented in Chapters II, III, and IV, for the argument that distressed communities in general experience more fiscal burdens and have less fiscal flexibility than their more fortunate counterparts. Thus, although certainly subject to improvement, the targeting criteria governing the UDAG program discussed in Chapter I appear reasonable, fair and effective. By and large they focus limited Federal economic development resources on the neediest of cities and urban counties.

Needs of Pockets of Poverty

There are pockets of poverty in many non-distressed jurisdictions—jurisdictions not eligible for current UDAG assistance. Their needs are significant. For example:

1. As indicated in the first few pages of this study, large neighborhoods inhabited by relatively large concentrations of low income households exist in many non-distressed, UDAG-ineligible communities. In fact these neighborhoods are often as large as many eligible jurisdictions and would qualify for UDAG funding if they were independent municipalities. As shown in Table 3 of the Introduction, the larger ineligible communities have older core areas of 50,000 or more persons with very high rates of poverty and unemployment. For instance, the low income area of Phoenix has 97,000 persons,[1] of whom 32.1 percent were below poverty in 1970 and approximately 16.3 percent were unemployed in 1977 (assuming 1970 configurations). The percent of pre-1939 housing in this area is 37.1 percent, enough to meet UDAG threshold requirements. The comparable low income areas of Dallas, Houston, and Memphis have more than 200,000 persons.

2. Within pockets of poverty in UDAG-ineligible communities, the severity of distress may often be comparable to the level of distress in low income areas of distressed UDAG-eligible cities. 1970 Census data indicates that low income areas in both non-distressed and distressed communities often have similar overall poverty rates as well as similar proportions of households that pay high rents in relation to their incomes.[2]

3. Some UDAG-ineligible central cities are for the first time beginning to show signs of "incipient decline or distress."[3] For instance, some Sunbelt communities such as Dallas,[4] which are ineligible for UDAG, are becoming ringed increasingly by settled suburbs (resistant to annexation) and are beginning to lag in population and even percentage income growth. Moreover, a decade or less can make a difference in a community's relative well being. For instance, Atlanta a city that is now eligible for UDAG has many of the problems of older Northern communities despite its booming prospects in the late 1960s and early 1970s.

Relevance of Pockets to UDAG

As presently structured, UDAG is primarily intended to help distressed jurisdictions become "viable urban communities". In this context, Action Grants are aimed directly at stimulating private sector development activities which address the basic underlying economic and social needs of distressed cities and counties. To put it more succinctly, the UDAG program, unlike such predecessor programs as Model Cities and the War on Poverty, is not a program targeted basically on neighborhood development or focused chiefly on poverty problems. Rather, UDAG responds to poverty and neighborhood problems by achieving basic improvements in local economies and job opportunities.

Would opening the UDAG program to "pockets" change its basic character as one of the Federal government principal economic revitalization tools? The answer depends, as will be illustrated, on the definition of pockets and proposed pockets guidelines.

Clearly, no compelling conceptual issues stand in the way of a fair consideration of pockets options. This is particularly true if:
1. Pockets of poverty are relatively large and serve as appropriate locations for economically feasible projects which meet current UDAG selection criteria;[5]
2. The economic development benefits of the project are clear and respond directly to the social and economic problems of the defined distressed areas or pockets and their needy residents.
3. Projects in pockets of poverty reflect tangible local public and private sector commitments.

Indeed, UDAG may be one of the few Federal programs that can offer pockets and residents of pockets a chance to join the economic mainstream. Income transfer and social service assistance, while necessary, offer only base or minimal life support opportunities. They do not respond to household mobility and job needs or objectives, nor were they intended to. Furthermore, they cannot easily contribute to the economic revitalization of large distressed neighborhoods.

Equity Concerns and Pockets

Equity issues must be addressed simultaneously with consideration of pockets options because of the scarcity of Federal funds and the heavier economic, social and fiscal burdens faced by most distressed communities. Unfortunately, however, equity issues are sometimes difficult to define and or to resolve with real certainty. For example, as indicated earlier, although the differences between distressed and non-distressed urban areas seem real and justify strategic Federal attention, many non-distressed urban jurisdictions contain sizeable distressed neighborhoods which are comprised of relatively large numbers of poor people—people who have not been able to participate in the economic growth of the general area.

While, because of resource constraints, it is fair and reasonable to focus or target the largest share of UDAG assistance to distressed communities, public and private sector concern for the well being of pockets and their residents is legitimate. Any expansion of the UDAG program to include pockets, however, should be premised, given earlier analysis, on the willingness of applicants to make increased commitments of their own resources to their respective pockets and the residents of their pockets.

Dilution

Early evaluations of UDAG suggest that the program is having a significant positive impact on participating communities. Presently assisted projects will leverage close to seven private dollars for every UDAG dollar, will generate well over 200,000 jobs in participating jurisdictions, and will contribute significantly to the local tax base.[6] While it is difficult to determine the factors generating UDAG's early success, one of the more relevant seems to be scale. That is, current UDAG projects appear to be large enough to "control" their environment and induce appropriate and complimentary local public and private sector actions.

Any credible pockets options could, by increasing demand, significantly reduce the average size and effectiveness of Federal UDAG grants now made to distressed communities as well as the number of distressed cities able to participate in the program. This is a fact of life which must be responded to if policy and equity concerns raised by this and other analyses are to be satisfactorily addressed by the Congress prior to approving a pockets of poverty option. Clearly, consideration of a pockets option should be contingent upon Congressional approval of the increased UDAG budget proposed by the President. Without these additional resources, UDAG aid now available to the more distressed cities would be reduced markedly.

Principles and Options

Principles. It was demonstrated earlier in this chapter and in the introduction to this report that pockets of poverty have economic development needs of the sort that UDAG is designed to address. If the Congress decides to approve a pockets of poverty amendment to UDAG, it should be guided by several urban policy related principles. Among them are the following:
(1) UDAG assistance to non-distressed jurisdictions should be targeted to relatively large pockets of poverty;
(2) UDAG assistance to non-distressed jurisdictions should principally benefit low and moderate income households in the pocket;
(3) UDAG assistance to non-distressed cities should be premised on local commitments to provide comparable services in the pockets area and local resources to the proposed project;
(4) UDAG assistance to non-distressed cities should constitute a limited but reasonable proportion of total UDAG funds.
(5) UDAG assistance should continue to be premised on firm private sector commitments and judgements concerning project feasibility.

Principles 1 and 2, if followed, would dictate statutory provisions which would focus limited UDAG resources on distressed areas and low and moderate income people in otherwise non-distressed jurisdictions. These principles emanate from the assumed priorities and concerns of the proponents of aid to pockets of poverty; that is, they are directed at revitalizing the economy of troubled areas and at expanding jobs and quality-of-life choices for their residents. Principles 3 and 4 arise from the fact that, on balance, non-distressed jurisdictions have more fiscal flexibility and face fewer fiscal burdens than distressed cities. Additionally, these principles relate to the need to use limited UDAG dollars to leverage often scarce local public and private dollars in pockets and in order to make a significant difference to the fortunes of pockets of poverty. Principle 5 sustains the basic public private partnership inherent in the present program and maintains UDAG's character as a program aimed at stimulating private sector development in distressed areas.

Options. HUD examined several pockets options. They are reviewed at this juncture.

(1) Develop a new program to aid pockets.
This option, while appealing to a sense of legislative neatness, would run counter to Congressional and Administration concern about the proliferation of separate development programs. The UDAG format and formula is flexible enough, with appropriate amendments, to encompass a pockets alternative. More to the point, the initial success of UDAG suggests that the program can assist non-distressed communities, prevent incipient decline and respond to the economic and social development needs of large pockets of poverty.

(2) Change the UDAG criteria and expand the eligible list of distressed cities.
Although the basic UDAG eligibility determination process was not part of the Congressional mandate, the analysis provided in Chapter II suggests that the present approach is reasonable and, on balance, fair. To get at the pockets problem by continuously amending the criteria until the "right" list of communities is defined (assuming there is somewhere a "right" list) or by defining a separate list of "non-distressed" eligible communities would weaken analytical support for defining distress and non-distress categories.

HUD's basic eligibility requirements should be subject to continuous evaluation, but the primary purpose of this evaluation effort should be to strengthen the ability of the eligibility criteria to meet present statutory objectives—that is, to identify distressed jurisdictions in a fair and reasonable manner. In concept, if Congress approves a pockets option, the jurisdictions involved will by definition be non-distressed. Thus, related pockets criteria must be directed at identifying areas of distress within an otherwise healthy area.

(3) Use present UDAG criteria which define jurisdictional distress to define distress in pockets.
Use of the six criteria would introduce severe problems of data validity. Of the six UDAG variables, only poverty and age of housing could be duplicated at the census tract level, and the data for these variables is quite old. A third indicator, unemployment rate, could be approximated at the area level by a "sharing" method which the Bureau of Labor Statistics uses for areas and small cities.[7] The other three variables—population growth lag, net growth of per capita income, and employment growth lag—are not nationally verifiable or comparable at the census tract or small area level, so city or county data of varying quality would have to be relied upon. For all six factors, imprecise or obsolete data could lead to a major misrepresentations of need. Clearly, the smaller the size of pockets, the greater is the possible margin of error.

(4) Develop a simple definition of pockets of poverty and related program criteria.
A relatively simple, straighforward and targeted pockets proposal would appear the most appropriate of the possible options. It should meet criterion consistent with the broad purposes of the UDAG program. It should permit the Secretary to make UDAG grants to non-distressed UDAG cities and counties if such cities and counties contain large distressed neighborhoods and meet precise benefit, match, and service criteria.[8]

Criteria for Pockets of Poverty

Area Size and Characteristics. Any proposed pockets area should be significant in size and generally amenable to local economic development strategies directed at neighborhood and community revitalization. Among the more relevant possible criteria for pockets of poverty are the following:
(1) In the case of jurisdictions under 50,000, distressed neighborhoods should contain at least 2,500 people or 10 percent of the jurisdiction's population (whichever is higher). At a minimum 70 percent of the residents of the neighborhood should have incomes below 80 percent of the city's median income, and 30 percent of the residents should have incomes below the poverty level.[9]
(2) In the case of jurisdictions over 50,000 distressed neighborhoods should be required to contain at least 10,000 persons or 10 percent of the population of the jurisdiction. Low income and poverty criteria would be similar to those defined above for smaller jurisdictions.

Benefits, Match and Services. Apart from size, HUD should propose criteria aimed at assuring a direct link between UDAG assistance, distressed areas, and their needy residents. For example, applications from non-distressed communities should be required to be part of a targeted local economic development strategy. Projects assisted by UDAG should have to be located within the defined pockets of poverty. Assisted projects should have to bring direct benefits to low/moderate income households residing in the pocket.

To assure that UDAG projects in non-distressed cities and counties should visibly decrease the level of distress and to compliment private sector commitments required by UDAG, applicants should be asked to provide a substantial portion of the UDAG grant (at least 20 percent) as a local match.[10] They should also be required to provide services in the pockets of poverty comparable in nature to services offered in more affluent residential areas.

Pockets and Resources
Many supporters of pockets of poverty advocate earmarking a specific percent or amount of dollars from the UDAG budget for such pockets. Indeed, many of those initially doubtful about pockets also support a separate fund or "kitty" for pockets. Both groups suggest that a reasonable set aside within the total UDAG budget would provide distressed and non-distressed communities necessary predictability about resource availability. To the supporters, a relatively small but specific set aside would provide convincing evidence that the pockets option would be real; to the initially skeptical, a relatively small but specific set aside from a larger program would provide evidence that the basic structure and intent of the UDAG program would remain intact.

The Congress, if it approves a pockets option, should authorize up to and no more than 15 percent of the President's proposed UDAG budget ($675 million) for pockets of poverty.[11] If this were done, non-eligible communities would be assured access to a fair and significant portion of the UDAG resources. Conversely, if the recommendation were approved in conjunction with the full budget amount, the pockets option would not dilute funds for eligible distressed UDAG communities.

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Footnotes

1. Unless otherwise noted, all figures in the rest of this paragraph are derived from 1970 statistics.

2. Comparison of Census defined low income areas based on a sample of distressed UDAG eligible and non-distressed UDAG ineligible cities. Obviously this type of gross comparison is affected by the size of the pocket and the indices used in the comparison.

3. For a discussion of growth trends in Southern communities, and an analysis of the variety of conditions in such communities, refer to Patricia Dusenbury and Thad Boyle, *Southern Urban Trends 1960-1977*, Southern Growth Policy Board, December 1978, and Marshall Kaplan, Gans and Kahn, *Growth and the Cities in the South, A Study in Diversity*.

4. Dallas has had a history of annexation. But, given growth of suburban ring jurisdictions, and increasing social economic disparities between suburban areas and the central city, its future annexation opportunities appear narrower than its historical ones.

5. These criteria include, but are not limited to: 1) the impact of the project on low and moderate income persons and on minorities; 2) the nature and extent of financial participation by the private sector; and 3) the extent to which the project creates permanent new jobs or to which current permanent jobs are retained.

6. Refer to *Preliminary UDAG Evaluation* (Draft), HUD, Fall 1979.

7. For instance, if a given community had a 3% unemployment rate in 1970 and a 5% rate in 1978, while a particular area had a 5% unemployment rate in 1970, that area would be credited with an 8.3% (5/3 X 5%) rate in 1978.

8. Prior to arriving at criteria for pockets, HUD reviewed current and historical legislation containing pockets or related provisions (see appendix).

9. On a regional or jurisdictional basis, poverty indices are not always well correlated with economic and physical distress. However, the smaller the area and the higher the incidence of poverty, the higher will be the likely correlation. Poverty data, among the relevant statistical indices available, is relatively easy to secure for small areas. Its use, along with the other criteria discussed above, will keep the pockets option simple yet targeted on need.

10. State or local resources. Only *applicable* Federal funds could be used as match money.

11. These dollar criteria are premised on the relationship between the number of eligible pockets jurisdictions, anticipated demand and the experience with the present program (i.e., relationship of projects to eligible jurisdictions).

Appendix

Brief Summary of Other Programs with Pockets of Poverty
All cities could qualify for *Model Cities* funding. Assistance, however, was focused on the neediest areas of a city. HUD regulations prescribed generally the size and/or population of the Model Cities Neighborhood.

The recent *Local Public Works* program, LPWII, reserved up to $20 million in every state for "pockets of poverty." Located in a primary city otherwise ineligible for LPWII funding, a pocket of poverty was defined as an area with a population of at least 4,000 persons and an unemployment rate of at least 8.5 percent for the most recent twelve months.

The *Community Services Administration* funds Special Impact programs to combat chronic unemployment, dependency, and community deterioration in areas with a high incidence of poverty and physical distress. Like UDAG, CSA requires significant participation from local business persons and financial institutions. In designating Special Impact Areas, the program seeks out communities that are large enough to provide a long-term basis for economic development and united enough to offer a recognizable community of interest. In urban areas, Special Impact Areas generally coincide with defined neighborhoods.

The *Public Works and Economic Development Act (EDA)* is directed at assisting public works development and alleviating conditions of persistent unemployment in economically distressed areas. The EDA eligibility system involves a two-level classification. First, a municipality or county can qualify as a "redevelopment area" on the basis of a high unemployment rate or a low income level. EDA permits ineligible communities a second chance to compete through Special Impact Areas (sometimes based on existing CSA areas). These areas are "communities or neighborhoods" which the Secretary determines to have met a hardship condition. Hardship can be documented from conditions such as unemployment rates well above the national average or a high concentration of low-income persons.[2]

Footnotes

1. The proposed eligibility list for the Bank, however, was much tighter for large Sunbelt communities than is the UDAG eligibility list.

2. In practice, EDA negotiates these areas with the city to ensure appropriate definitions and targeting of needs.

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